Money Monopoly
vs.
The Community Dollar

By
William Long Baker

Digitized by the Internet Archive
in 2007 with funding from
Microsoft Corporation

http://www.archive.org/details/moneymonopolyvsc00bakeuoft

Money Monopoly
vs.
The Community Dollar

LCF
B1686m

Money Monopoly
vs.
The Community Dollar

By
William Long Baker
Formerly Supervisor of Branches
Standard Bank of Canada

199171
2/12/25

THE COMMONWEALTH PUBLISHING COMPANY
PUBLISHERS - - - TORONTO

Copyright Canada, 1922
By William Long Baker

"Above all things good policie is to be used, that the Treasure and Moneyes in a State be not gathered into few Hands. For otherwise, a State may have great Stock and yet starve. And Money is like Muck, not good except it be spread."

FRANCIS BACON.

A community to increase its wealth must procure or acquire money or goods. It must find this money and these goods within itself. If it permits its resources to go outside its boundaries it upbuilds another community and neglects its own opportunities, thereby retarding the progress of the united communities comprising a nation.

INTRODUCTION

THE purpose of this book is to present to the Canadian public the result of twenty years study of the Canadian Banking System. No apology should preface my remarks for a work, which doubtless will be displeasing to banking interests, since it is obvious that what is of much more importance than encomiums upon our much too limited number of banks, is the common good, the welfare and continued progress of the nation.

A great deal of public controversy may follow the publication of this book, as there has been for years a systematic publicity and propaganda to educate the public to the idea that Canada's banking system is the one and only ideal system. Let some American say something of a complimentary nature regarding the system and at once it is featured in our leading financial journals. Criticism of this system has been sporadic, weak and about as effective as a dart gun against the fortifications of Gibraltar. The facts regarding the system shall be set forth in this book and the facts will immediately be denied, distorted and camouflaged by votaries

of the system, but let the public take an active interest in the banking business of our country; let the leaders of public opinion bestir themselves in the general good; let the business men of Canada take the matter seriously in hand; and the system that we now have can be made one that will permit Canada to grow and properly take care of its growth.

The business of banking is co-related and intimately associated with every phase of trade and commerce. It involves a study of the science of political economy, of the natural law of money, of conditions of trade and commerce, the rise and fall of prices, and of the principles and application of credit under varying conditions. The field for thought and study is as limitless as the imagination, and numerous phases of the subject followed in logical sequence merge with or cross other lines of consecutive thought, and lead to debatable ground where one finds divergence of opinion and seemingly irreconcilable conclusions.

Notwithstanding however, the confusing facts associated with these complex problems, it is possible to present the underlying principles of the business of banking alone, in such a way that the layman can understand them. To do this I shall in so far as it is possible, keep away from

allied subjects in order to bring into distinct relief the points which it is the object of this book to set forth. By simplified illustration and untechnical language, even at the expense of brevity, I shall endeavour to impress every business man who reads this book, with the fact that it is high time the people of Canada should give serious thought to the business of banking, and that by some concerted action they should reform a system which is vicious in principle, which is entirely at variance with the ideals of a democratic country, which has proven itself unequal to the solving of our economic problems, and which though applied with the best of motives, cannot possibly meet the requirements of a country for which we prophecy such a wonderful future. He who gives careful thought to the subject will be convinced that the prophecy that the next 25 years shall be Canada's cannot be fulfilled unless some very radical change is made in our financial system.

What I am about to write may be regarded as an exposé. What are termed the big interests may characterize it as a malicious attempt to undermine public confidence. I, therefore, wish to make it clear that I have no quarrel with any bank and that I have the kindliest feelings toward those with whom I have been

intimately associated. I shall frankly tell my readers just why this is written, the circumstances which suggested this action and the motives which finally impelled me to give the public my views.

Lest there be any who may misconstrue my meaning, let me say that Canada's institutions are sound, and as separate institutions, they are individually well managed, without exception, in so far as my knowledge of them enables me to form an opinion.

I shall endeavour to be fair in every statement made, to give credit for the founding and upbuilding of institutions of which Canada may be justly proud—proud, note please, of the individual institutions, in much the same way as we may feel pride in the accomplishment of a captain of industry, but I shall not hesitate to show the shortcomings and defects of the system.

CONTENTS

Chapter		Page
	Introduction	7
1.	An Explanation	13
2.	The Evolution of Money and Functions of a Bank	18
3.	Supply and Demand	35
4.	The Bank Act	40
5.	The Process of Founding a New Bank	48
	Comparative Statements	61
6.	A Comparison of Canada's Banks in 1904 and 1920	63
7.	Bank Elimination and Branch Extension in 16 Years	83
8.	Waste and Inefficiency	88
9.	Competition and Interest Rates	93
10.	Window Dressing and Propaganda	98
11.	The Banks in a Crisis	107
12.	The Proposed Commonwealth Bank	118
13.	The Plan of a People's Bank	150
14.	John Jacob Arnold	158
15.	"The Public Interest"	165
	Appendix	183

CHAPTER I.

AN EXPLANATION.

IT WILL doubtless be said that this book was written out of pique, or retaliation, and I may say that what anybody says or thinks on that subject is a matter of pure indifference to me, so long as the facts are given the consideration they merit. Repudiation of such motives would have little weight in view of the fact that circumstances which I shall narrate, warranted resentment and now possibly I may look for further manifestation of the power of the system. I am not blind to the fate that may overtake me as the result of placing certain facts before the people. My pelt is likely to be nailed to the barn door as a warning to others to keep off the premises. I am not by any means independent of financial institutions, and as I am in danger of being looked upon as a disturber of the peace, it is quite possible that I may have to seek sanctuary in a smaller establishment having three golden balls suspended over the door.

My motive is to succeed in having established in Canada, financial institutions which will be

democratic in their operation, not suction pumps for a central reservoir controlled by a few. The reason for using this style of publicity, rather than by taking the usual methods to found a new bank, is because it is absolutely useless to ask the present Parliament of Canada or the Senate of Canada, for a charter, so long as the Bankers' Association can dictate the decisions of these bodies. My motive therefore, is not one of pique, but one to accomplish what I set out to do, or to enable some other person to accomplish it, should I happen to lose my scalp in the attempt. This is an appeal to the people of Canada,, not only to the Maritime Provinces, and the West, but to the residents of small towns and to farmers in Ontario, and Quebec. It is a subject which is a vital one to many, even in Toronto and Montreal.

Early in 1921—I became convinced that the time was most opportune to found a new Canadian Bank, and I felt that if I could obtain proper support, I might put into operation, a plan I had long thought over, in which the objectionable features of the System would not appear. The plan was submitted to a personal acquaintance in the United States who became thoroughly convinced that such an institution would have a wonderful success. We then sub-

mitted it to a prominent solicitor, a Gentleman, who, by the way, is the solicitor for one of our largest Banks. We employed this man and at our request he interviewed the Minister of Finance, receiving the Minister's assurance that the charter would be granted. Upon this assurance, our plans were drawn up, and a Company was formed to promote the Bank. Upon this assurance, I resigned my position with the Standard Bank and commenced this work. The story of this attempt and failure will be told in another chapter, suffice it to say here that we were defeated long before we knew it, or were supposed to know it, and we have our work and expense to go through with again. Shall we succeed? Not unless we have the support of the people. We cannot get that support except through publicity. We were content to get our charter without publicity. The banks were not content for us to have it. There is, therefore, nothing to do but to fight the banks, on their own ground, to show up the system, and to appeal to what, after all, is the greatest power in a democratic country, the people.

The idea of promoting a bank was one of personal profit and advancement, but there has

been added to that motive, an ambition born of defeat, to have the people endorse a scheme which shall be outlined in detail, to have a bank founded in Canada, which shall be free from the criticism now levelled at existing institutions, even it must receive its charter to satisfy a demand of the people. The circumstances associated with the Government refusal of the charter is the best illustration which could be had of the submarine methods used by the Canadian Bankers' Association.

On the same day, at the same Meeting, the same Finance Committee of the Senate, extended the life of the Great West Bank, and refused the application to incorporate the Commonwealth Bank of Canada. The Great West Bank had been chartered nearly a year previously. They had not been able to dispose of their stock. Their record up to that time had not been such as to inspire confidence. Only a few weeks before this meeting one of our financial journals published an item under the following caption, "Great West Bank, One of the Promotors dead and Another in Jail." It went on to recite that one of the parties associated with the scheme had been jailed for forgery. Why were not the Senators disturbed over this bill? Why was the Great West Bank entitled

to more consideration than the Commonwealth Bank? The reader will have the reason unfolded to him in succeeding chapters.

CHAPTER II.

THE EVOLUTION OF MONEY AND THE ORIGIN AND FUNCTIONS OF A BANK.

THERE are many definitions which would correctly describe banks and bankers, but some definition must be given prefacing remarks on the functions of a bank. The latter must be explained in substance, and the principles upon which banking business has been developed, must be set forth in a manner so elementary that the layman may understand them.

Every customer of a bank may enter the institution daily, transact business with the utmost intelligence, and yet it may never have occurred to many to investigate the fundamental principles from which modern banking practice developed. Volumes would be required to deal with every phase of this subject, but there are several phases which must be explained in order that an analysis of Canada's banking situation may be understood.

Let us postpone making a definition of bank and define first that with which a bank is most closely identified in the mind of the reader,—namely money.

Money is a medium of exchange. Money is anything which will indicate the relative value of commodities. It may be any product of labour and yet money, only when it is used as a basis of value in the exchange of other articles. Before money or a medium of exchange was used a man to realize on fish for instance and obtain a canoe would have to find first a man who had a canoe and needed the fish; but later it was found that there was always a greater demand for cattle than for either fish or canoes and so cattle became money, became the medium of exchange; indeed this was the first form of money used in the world.

The finding of a suitable medium was the beginning of money. Since then many different articles have served the same purpose. Money may therefore, be defined as the product of man's labour. Any commodity may serve this purpose as in times past many have done so. Therefore, there should never be any lack of money or lack of a medium of exchange so long as we continue to produce commodities. That may be stated as an axiom. Money therefore, existed before Governments, while men existed in tribal state. As society developed the value of money in its crude form fluctuated, and this fluctuation was entirely a matter of supply and

demand. The values of all commodities are relative, but as money represented the commodity most commonly exchanged, the fluctuation was in money itself. The traders however, would lose sight of the fluctuation in money as it was the base and quite naturally regarded the fluctuation as pertaining only to the other commodities, which his money or medium purchased.

As value is relative and cannot be otherwise, it became necessary to find some article which would not fluctuate, and hence the basis of money has changed from period to period until silver and gold formed the basis of our money, in fact we may state even though another evolution was being brought about that silver and gold actually was the medium of exchange. But can anyone conceive of anything so fantastic and so utterly impossible as all our daily exchanges being settled in silver and gold. For every article purchased each individual would have the equivalent in gold and silver. This would be idle money. But other elements had been introduced into the history of money. Business efficiency was gradually being developed, civilization and christianity developed or awakened the human conscience, to the necessity of a moral code, a line of conduct, far

different from the predatory inclinations of primitive man.

The man with a hoard of gold and silver concluded that he could lend to his neighbour who would in turn buy his requirements with the borrowed gold, and so on indefinitely. Thus was credit introduced in our story. With the increasing business efficiency and the practice of lending, or the extension of credit, the necessity for gold as a medium of exchange became less until gold became a standard of value, a theory we might say, and not the actual medium of exchange.

A further step brought about by the multiplicity of lending and borrowing transactions was the introduction of the banker and as the number of bankers increased, the system of credit was also increased, for assuming that one were to deposit with one bank a certain quantity of gold, he received either the banker's promise to pay or he received evidence of the banker's indebtedness in the form of a deposit receipt. The banker immediately lends the gold to a borrower who redeposits it with another banker receiving similar evidence of the banker's debt. There would, therefore, be two banker's obligations issued for the one lot of gold. The second

receipt was rendered possible by the extension of credit by banker Number One.

In the development of the business of banking, we have the bill of exchange, notes, drafts, cheques, orders to pay, from funds accumulated by the deposit of other orders to pay and so on through the varied number of banking transactions, which are settled by our highly developed banking and clearing house systems. It serves no good purpose to continue the story of this development. The conclusion is that what constitutes our medium of exchange, our money of to-day, is credit,—absolutely nothing else,—credit founded on integrity and the ability of human endeavour to produce;—to produce what,—to produce commodities,—to produce all of the various articles many of which have served as a medium of exchange,—to produce, therefore, money. What we commonly call money is merely the token of those commodities. A man works for a certain period of time and is handed what he calls money,—a ten dollar bill. It is the token of his production. It will buy for him a barrel of flour. He might, to all intents and purposes, have been as satisfactorily paid by the transfer of one barrel of flour, except as a matter of general convenience, it must be otherwise.

The banker has already been introduced as the agency by which borrowing and lending transactions are consummated, gradually expanding to embrace all business transactions associated with the interchange of commodities. A bank, therefore, is a clearing house for the scientific handling of tokens of production. These tokens purchase property of all kinds, they purchase credit. When handed to a bank they are merely certificates that the holder owns so much property or we may say purchasing power. The holder transfers this amount of purchasing power to the bank either for purposes of convenience in exchange of commodities, in trade, or that in return for a certain increase in his holdings, in his capital, he permits the bank to become his debtor and a credit is established. The banker receives deposits or borrows, we may say, the credit of many people and for profit lends this credit to those able to produce. Even money the token is nothing more than the base or calculating unit and there may be no more than documentary evidence of the exchange of token. These documentary evidences all represent credit in one form or another. The bank is therefore, a clearing house of credit.

We have seen that in the evolution of money,

it has followed a natural law, ever tending towards a higher and more refined medium, but the fundamental principle is that anything may be used to denote money, in fact, anything which is the result of human production is money, and that the cause for a change in the medium has been the demand for stability and convenience, a stable standard of exchange values, rather than sufficient of the actual standard to meet all exchange requirements.

Suppose that the principles of credit had not been introduced in the development of a suitable medium of exchange then it naturally follows that no more trade could be carried on than the amount of gold and silver in the country and trade could only increase as the supply of these metals increased. The banker has been referred to as receiving a deposit of gold and issuing his receipt for it. This was the beginning of paper money. The issuing of paper money should have remained the business of the bank and no paper money should be issued by a Government unless the Government actually enters into the business of banking. The banker's invention of paper money enabled the metallic money to function by proxy, and then by the introduction of credit the paper money is expanded to meet expanding trade, and con-

tracts automatically during trade depression. When the banker lent his borrowed gold, he took from the borrower documentary evidence of the debt and he also took security, which, combined with the assurance that the debtor could reproduce the equivalent on demand or at maturity, was sufficient warrant for having a new credit issued on the same gold. Thus confidence in the banker, confidence in his judgment, confidence in conditions, assures repayment in money or in credit, which credit is immediately realizable in a form to render it capable of being again put to work, and there is no necessity of the metallic equivalent existing to act as a millstone on trade and commerce.

It has been stated that the issue of paper money is the business of the banker alone, and paper money is simply a promissory note payable on demand. The next question which naturally arises is,—what amount of paper money or promises to pay should a banker be permitted to issue? Should he be permitted to issue promises to pay against the property of others intrusted to his care. It seems perfectly reasonable to make an immediate reply in the negative and I think that there would be no argument on that score. It would follow then that the limit should be placed at his own ability to pay or in

other words the amount of money which he has invested in his business. Hence the issue should not exceed the paid up capital of the bank.

This is not the only condition however, which should apply to note issue. There is a further requirement which unfortunately is not being met by our bankers, as will be seen later, and the Government does not seem to be deeply concerned over this phase of the question, which is that the amount of paper currency should be sufficient to meet the legitimate demands of sound business no matter what the amount may be. The banker has a monopoly, and rightly so, in the issue of paper money. It is in the public interest that the demand promises to pay of all businesses should not circulate as money. If, therefore, we grant the banker the sole right to do so, shall we not demand of him that he issue enough to satisfy commercial needs; but we have already concluded that he must not issue more than his capital, therefore, it is a perfectly logical conclusion, that the banker should be compelled to increase his invested capital or permit someone else to invest capital in the same line of business. Here we have one of the most glaring faults of the Canadian Banking System. I shall deal with this later under a different caption.

It seems obvious that there still exists even in the minds of those who should be best informed, many false notions regarding money. The very financial structure responsible for the conduct of our business would seem to have been fabricated upon erroneous economic theories and hypotheses, which have been proven fallacious. Take for instance the question of the proportion of gold which should support our paper money. There was a time when it was thought absolutely necessary to maintain certain proportions and it was thought that if the amount of paper money were increased the nations doing so would become bankrupt. It was said that England could not carry on the war for more than six months, but to the utter confusion of prophets, financial experts and their theories, the war was carried on for years. Our bankers in Canada, made prophecy after prophecy regarding this or that phase of business until they at last demonstrated that there were laws governing these conditions of which they knew less than they did of the nature and quality of the electricity which illuminated their offices. That there are natural laws is beyond question. That bankers displayed ignorance of these laws is also beyond question, since had knowledge existed, we would not have heard so many conflicting opinions,

theories and suggested antidotes for our largely imaginary ills. We did manage to get along with less gold. When we recovered from the first shock of war and went into the business of war, we had an era of prosperity, an era of huge profits and we witnessed both money making and money wasting. We had a millionaires' carnival and a glutton parade, in which many of the celebrants were masked, and customers of our banking institutions were not the only persons who had their snouts in the swill trough. It may be said that this was false prosperity, but that would be about as logical as to say of a man who is sick that he never enjoyed good health. Abuse of a healthy condition may have caused his sickness, and in this simile we have one of the causes of our present financial difficulties. There came a time in our war business when even our bankers seemed to forget that the war might possibly come to an end. They forgot all the prophecies of blue ruin, and while economy, conservation of credit for war purposes, and other professional cant was preached, they actually practiced the reverse. Prices soared but the higher they soared the less inclination to stop buying, and buying and selling was only made possible by the support of the banks. By their attitude the banks actually

encouraged the accumulation of huge stocks. Did these huge stocks consist of the necessaries of life for the working man? Absolutely not. We were told there was scarcity in some lines, but by the unwarranted expansion of credit we piled up stocks of silks, furs, the finest wearing apparel, expensive automobiles, and luxuries of all kinds.

There was an impression that the banks were restricting credits, so they were in some directions, but the prosperity of some businesses during the war, and the obituary notices of others which have been written since tell a story which is an absolute disgrace to men who undertook to lay down for the business community, safe, sound and sane lines of conduct. It was not alone the issue of paper money regarding which they are now so worried that was unsound, but it was their aiding and abetting the public in speculation, over buying and other policies even less defensible. The issue of paper money as I shall show later, was not unsound except as it was made necessary by an unwarranted expansion of credit and consequent inflation of prices.

This digression touching on the conduct of Canada's finance during war time, is an instance of and a positive proof of the statement that

there are some laws, presumably unknown, but which are disregarded, otherwise there would be a compensating control. It proves also that the gold basis as it is popularly understood is something of a fallacy. The standard of value is, of course, gold;—but by what mental processes do we arrive at the conclusion that we must have gold locked in a treasury vault to represent our circulation, or that we must have 50%, 30%, 10% or 1%? As a matter of fact, would not exchange of commodities be carried on just as effectually if the gold, now in the Federal Gold Reserve were still in the mines at Porcupine. There is not nor never has been gold enough to redeem our paper currency. What better position would we be in if our paper currency represented the gold held in vaults? One might reply that we could use it to settle international balances and thus rectify the adverse rate of exchange. That is another question entirely and one which obviously would simplify itself were it not for the fact that the economic history of the United States is replete with grave errors of currency issue based on false theories. In this respect our own system more nearly approaches the ideal credit system. The nations have been paying their debts to the United States in gold until the

United States almost controls the world supply of the precious metal and what good has it done that nation industrially, commercially? It undoubtedly will benefit them when they can make commercial use of it, but in so far as the ability of their $20. Gold Certificate to buy an article is concerned and the holder in turn to buy another, would it serve the purpose any better if it had five times the nominal value of gold to support it than if it had not any? Our minds become confused at once with the idea that the quantity of gold back of the note in some mysterious way has to do with the rise and fall of the price of the article. The gold supporting the note and locked in the vault has absolutely nothing to do with prices. The gold produced and in circulation or in trade has something to do with it but in that case it is more nearly a case of a fluctuation in the price or value of gold. We have fixed the value arbitrarily and it must be so fixed since it is the standard, but as all values are relative, the price of gold fixed, we cannot see nor describe its fluctuations. Assuming then that gold develops fluctuations just as did silver, copper, cattle and other media, what shall we have next? As gold is not the medium even now, but nothing more than the standard, what standard shall we have

if it should prove unsatisfactory? The natural law of a higher efficiency surely has not ceased to operate. It would seem from the performance of our monetary system that the solution is to be found in a higher and more scientific development of credit, without the artificial and arbitrary restraint imposed by unintelligent legislation. In many respects we have been happily free from interference by legislators who are not economists; but we still retain many crude misconceptions of money.

There is a requirement of the Bank Act obliging a bank to carry 40% of its cash reserves in Dominion Notes. We have seen that money in its crude forms came into existence before legislative bodies were found necessary. With its development there was of course, the necessity for regulation and the use of the King's Head was a guarantee of its genuineness, but unfortunately the Kings usurped the powers of issuing money profiting thereby not only through revenue but by debasement. There still linger traces of the notion that there is a connection between the circulating medium and the Crown. We have present day instances of where Governments have taken advantage of tradition and issued fiat money. Our issue of Dominion Notes is in reality a violation of the

principles governing money. It is a relic of the age when the state assumed the right to enforce credit and the Government does not make this stipulation in order to guarantee the holding of real cash as it could have called for the amount to be held in legals or gold, but it simply forces the banks to accept a certain proportion of Government money, only a small percentage of which is redeemable in gold.

The making of bank notes legal tender was another unwise move from the standpoint of natural credit. It doubtless was thought the proper expedient to prevent disaster since the export or paying out of gold was prohibited, but what a ridiculous piece of legislation, to oblige a creditor of a bank to accept payment of the bank's debt to him in promises to pay of the same bank, and then if the bank runs short of promises to pay to permit it to issue more on the strength of a pawn ticket covering certain securities. This acrobatic operation will be explained in detail in another chapter.

What I wish to establish is that there is an unwholesome disposition on the part of the bankers to tinker with legislated and legislative privilege for their own aggrandizement, but I do not say that this is done out of malice aforethought and evil prepense, but rather that it has

been the easiest and most profitable thing to do. Though it may appear presumptuous to express this opinion, I really believe that few of our bankers have realized to what passes they were and are drifting. It has been the line of least resistance and as self-interest is paramount in all human beings, it is natural that to break the record for profits appears of much more vital concern than the question of national progress, or the hypothesis that the combined banks are one machine expected to serve the best interests of Canada.

We still have even in Canada and our banking system which we laud so highly the taint of ancient doctrines regarding money, regarding the once accepted principle that Governments had to do with the regulation of money, the coining and issue of money, and the right to legislate limitations which should only be fixed by the operation of natural economic laws. Any attempt to regulate by statute the law of supply and demand as applied to money, to fix the price thereof, is as futile and as unsound as fixing the price of any other commodity or attempting to regulate the operation of the law of supply and demand in its relation to any line of business.

CHAPTER III.

SUPPLY AND DEMAND.

LET the distinction be kept in mind that money is the token of a commodity as we now have it, the medium of exchange and not capital, nor wealth. Money with its gold standard to determine redeemable value has adopted credit as an integral part of the system, confidence in the redeemability in gold, of what it represents, notwithstanding the actual gold does not at the time exist. The demand for money fluctuates with business activity. It will be called into action when trade transactions multiply and as they decrease it will return naturally to its origin. Money does not leave your till until such time as you wish to exchange it for goods or deposit it in a bank, which is purchasing a banker's credit or making the bank a loan. It does not leave the bank until there is a safe and sound opportunity to lend it or until someone else with a banker's receipt wishes a token of his property which will circulate in trade. When business activity is at its peak, bank loans are high, the amount of money in circulation increases, and prices steadily ad-

vance. When money is withdrawn from circulation, industry slacks up and prices fall.

The experience of the United States in 1893 during the hoarding panic, may be cited to show the effect of withdrawal of currency from circulation. Following a withdrawal of capital from the United States the people took it into their heads to hoard paper money, with the following result: New York bankers commenced to note a shrinkage of $1,000,000 per day. Savings Banks, to protect themselves, ceased to deposit their currency in the National banks. Industries had to close down, not for lack of capital, but for currency. Many banks closed their doors, although perfectly solvent. In a couple of months bank clearings fell thirty per cent. Within a couple of months, however, some mills arranged with their employees and merchants to issue their own token. The clearing house certificate came into use, but it was the more general use of cheques which from the standpoint of our discussion, played the greatest part in overcoming the trouble. The trouble lasted for only a few months, but from our viewpoint two conclusions may be drawn—first, the withdrawal of currency caused the trouble, and second, credit (the use of cheques and other instruments)

cured it and brought the currency out of its hiding place.

Every arbitrary action in regulating the currency, either by restricting issue or by forcing an issue not required, is an unwarranted interference with production. It makes no difference for what purpose the money is withdrawn, its result is the same as though it had been withdrawn by hoarding. The one is as nonsensical, criminal we might say as the other. This is not a remote question. It is actually present with us. During the past year the Canadian Banks have been decreasing circulation, because they regarded the excess as inflation, when as a matter of fact, it was not inflation of currency. There was inflation of credit, of prices. There was an abnormal demand for loans, which demand the banks were rather too hasty in some instances to satisfy. The impetus which had been given to business caused a demand for more circulating medium, which the banks provided, and they became uneasy at the proportions to which the excess grew, but the amount was fully warranted as we endeavoured to make clear. Trade will not demand more medium than is necessary. The policy of the banks in forcing a reduction of circulation is undoubtedly responsible for some

of our present financial ills. Restraint in the making of loans, a more stringent practice with regard to some classes of borrowers, curtailment of the purchase of certain commodities was in a measure necessary. This would naturally reduce circulation but when reduction was made an immediate object on the theory there was currency inflation we had a result similar to the stopping of a train, both by the application of the air brakes and the opening of a switch. The miracle was that there were not a greater number of casualties, and that the damage was confined almost entirely to the first class coaches. The point is that the note circulation magnified the necessity for curtailment and a mistake was made in applying too many and too drastic remedies.

The increase of the circulating medium does not bring about any depreciation of the value of money, does not cause commodity prices to soar unless that circulating medium is mandatory in its nature, fiat money, or issued on false credit, and so long as the issue is based on the theory of redeemability in gold, as previously discussed, or a protected credit represented by actual ownership of property and not a promise to pay creating a liability in excess of invested capital, it is not a factor of itself in the inflation

of prices. Prices are not effected by the quantity of true money in circulation. Undue inflation of credit, unwarranted granting of credit, the granting of or creation of credit upon no foundation, where credit should not exist, injects in circulation spurious money weakening the whole system and prices are effected thereby.

The only way by which prices can be increased with a true money basis is by limiting the borrowing power of those who would produce. This can be done by certain classes, groups or interests acquiring control over capital, over purchasing power, or bank resources. It resolves itself then to the question of the producer's ability to borrow from his banker. If he cannot get credit because the supply has already been corralled by more influential capitalists, it is clear that legitimate note issues have nothing to do with it. Control, therefore, of borrowing facilities in the hands of a few tends to high prices.

CHAPTER IV.

THE BANK ACT.

THE Bank Act, like Grandfather's mahogany furniture, is venerated and religiously rescued from the discard every ten years. It must not be subjected to any process of modernization, and no alterations are permitted except those which may render it more antiquely ornamental, and more comfortable for those who are expected to use it.

The Act is fearfully and wonderfully made. Probably there never will appear again, unless it may be a War Times Election Act, anything so incapable of practical interpretation or capable of so many interpretations, so utterly confounding to those who have to use it, as the Bank Act. When a General Manager encounters a new phase of the Act involving some technical point, he looks around for some one whose father knew a partner of the man who framed the Act and then they find out exactly what the Act was intended to say regarding the point involved. Week in and week out, year in and year out, bankers and lawyers get together to interpret the Bank Act and find some

way of plugging up a new hole discovered in it. If a research expedition could only unearth some ancient parchment revealing just what was intended, it would be a boon to the business community. The interpretation changes for want of this knowledge but the Act itself goes on forever.

I shall not attempt here to give in detail, proof and demonstration of the necessity for changes in the legislation but merely to refer very briefly to a few of the unsatisfactory features and contentious points in the Act.

Every lawyer knows the intricacies, the pitfalls and difficulties peculiar to loans made under Section 88 of the Bank Act. From the bank standpoint these loans are a constant source of worry and annoyance, because of the uncertainty of the methods used in endeavours to conform to the Act. The forms used for years and regarded as water tight were suddenly found to be or thought to be defective, and new forms were devised, the merits of which have yet to be tested. From the public's standpoint, the Act as it is applied is simply iniquitous as it enables a manufacturer to obtain double the credit to which he is entitled. He may buy goods on four months time and immediately hypothecate them to a bank for a

loan. There have been cases where firms in an insolvent condition have purchased goods on the eve of insolvency, hypothecated them to the bank and they were absorbed with the bank's security. There have been cases so flagrant as to point to collusion between bank and customer. It may be argued that the vendor of the goods is aware of the possibilities and should protect himself, but this is hardly a reasonable excuse for making such a wide open opportunity to defraud. No one can read the decision of Mr. Justice Sir Louis Davies in the case of Dominion Bank versus Clarkson and not be convinced that the intention of Section 88 was to enable the bank to make loans for the purchase of raw materials and labour and that the bank's security would consist of commodities actually created by the loan, which would mean that the vendor should be paid, and yet the Act has the following:

"All advances made on the security of any bill of lading or warehouse receipt, or of any security given under the last preceding Section, shall give to the Bank making the advances, a claim for the repayment of the advances on the products or stock, goods, wares, and merchandise therein mentioned, or into which they have been converted *prior to and by preference over the claim of any unpaid vendor.* Provided that such preference shall not be given over the claim of any

unpaid vendor who had a lien upon the product or stock, goods, wares and merchandise at the time of the acquisition by the bank of such warehouse receipt, bill of lading or security *unless the same was acquired without knowledge on the part of the bank of such lien.*"

The bank may have a secret lien on the goods. An outsider must protect himself. The Act makes it necessary for a vendor of goods to find out before selling if title is to pass to the bank. There is no obligation upon the bank to publish the lien, nor to see that the goods are paid for. Note carefully now how the exception is worded. A vendor who already has a lien on the goods is likely to lose it if the bank can show it had no knowledge of the lien. Apparently the burden is again placed on the vendor. The rule does not work both ways.

The Act refers to a wholesale manufacturer and yet gives no definition of the term. A loan to a manufacturer of automobiles, selling to dealers on the security of their goods, wares and merchandise would conform to the Act, but a manufacturer of gramaphones, selling direct to the consumer might not be able to borrow on similar security.

The bank may lend money to a farmer upon the security of his threashed grain grown upon the farm.

Section 2—Subsection (*h*) reads "'Grain' means wheat, oats, barley, rye and flax."

Corn is omitted. Therefore, corn is not a grain. A farmer who wished to specialize in corn could not borrow under this section. He can only borrow on wheat, oats, barley, rye and flax. An amendment permits him to borrow on his cattle, giving security in the form of chattel mortgage, drawn to conform with the laws of the Province in which the loan is made. The bank may lend to a purchaser or shipper or dealer in products of agriculture. By a little stretch of the imagination, a dealer in products of agriculture might be made to embrace the unfortunate farmer, but since Sub-section 2 appears to have been expressly framed for him, he might not be able to hypothecate his potatoes, buckwheat, corn, and other products of agriculture. In Sub-section 7, however, which explains that the bank has the same powers as if the goods were held under warehouse receipt, there is a clause which indirectly includes the farmer. The clause reads: "Provided, however, that the wages, salaries or other remuneration of persons employed by any wholesale purchaser, shipper or dealer, by any wholesale manufacturer, or by any *farmer* in connection with any of the several wholesale businesses

referred to, or *in connection with the farm, etc. etc.*" If the farmer is a wholesale dealer or wholesale shipper as well, there is of course, no question as to the meaning, the circumstances determining whether he is a wholesaler or not, but it says also, or *in connection with the farm,* but as a farmer he can borrow on grain only as defined in the Act.

There are very many confusing conditions in this Section of the Act. Some very radical changes are necessary if indeed, the whole Section should not be obliterated.

For years the banks have been taking deposits from two or more persons on the condition, "Either or survivor to draw." On the death of one party the other could withdraw the amount. The advantages of such accounts were fully advertised until recent court decision put a damper on this popular form of evading probate or administration fees and succession duty. It seems now to be the duty of the banker to determine the ownership of the funds before paying the amount to the survivor. In the interest of those who operate such accounts, a clearly defined practice should be a matter of legislation.

There is a provision that a bank shall not lend any money on the security of the shares of the

bank or any other bank, yet it also states that the bank has a lien on the shares for any debt due the bank which enables a bank to evade the law and lend a shareholder on the security of its own shares. It takes no hypothecation or assignment but may record in the stock ledgers a memo that the shares are not to be transferred until the loan is paid.

The Act requires that in the Government statement there shall be shown the amount loaned to Directors or to firms of which they are members, which means and the meaning is not overlooked, that John Smith, a Director, may borrow $10,000,000 from the bank and his loan will not be included as a loan to a firm of which he is a member if he incorporates the firm and makes it a joint stock company. Our monthly bank statements would doubtless be very illuminating, if the loans to companies whose boards included Directors of banks were to be included under this heading. It would show to what extent our bank directorates are controlling the lending powers, the credit of the country. Otherwise the statement is quite purposeless but the issue could be evaded in some instances by resignations and the election of dummies to the directorates of borrowing companies.

The Bank Act requires further amendment in the matter of interest rates. Usury laws are archaic and unscientific. They are not natural. They are an interference with the laws of supply and demand. If we must have legislation on this subject then let us regulate the spread between the rate paid to Savings Depositors and the average interest rate charged borrowers. There is no logic, no sound economic theory, no fairness nor justice in rigidly adhering to a 3% interest rate to the depositor who is supplying the sinews of war and permitting the banks to avail themselves of every opportunity to collect high interest rates.

CHAPTER V.

THE PROCESS OF FOUNDING A NEW BANK

A NEW bank cannot be incorporated except by Act of Parliament. A bill to incorporate a bank is introduced as a private bill, is subject to three readings in each chamber, the Commons and the Senate, and must receive the assent of the Governor General. In each chamber it is referred after its second reading, to a Committee of the House on Banking and Finance, and upon the report of this Committee very probably hangs the fate of the bill. The bill must set forth the names of the incorporators, who in the ordinary course would be the provisional Directors, the name of the bank to be incorporated, the proposed capitalization and the chief place of business or head office.

Any individual contemplating the formation of a new bank must first obtain the consent of a number of individuals not less than five who will consent to act as Provisional Directors, and who will be willing to take all the risk their decision involves. It is not necessary to explain the serious nature of this as the promotors will find very great difficulty in locating a sufficient

number who are not on the boards of other banks, the boards of trust companies controlled by or affiliated with banks, or who are not so heavily indebted to a bank that they fear reprisals of an unpleasant nature. The Act requires that a majority of the Board must be British subjects and that each Director shall own $3,000 of stock if the capitalization is $1,000,000 or less, $4,000 if over $1,000,000 and less than $3,000,000, and $5,000 if over $3,000,000.

When the requisite names are duly signed, the bill is ready for Ottawa. A member of the Commons and a Senator are asked to introduce the bill in Parliament. The bill must be advertised for five consecutive issues of the Canada Gazette before being introduced.

If Parliament grants the charter, subscription lists may then be opened and the stock sold under conditions and restrictions which wisely limit the possibilities of promotors' profits and which safeguard in every way the public interest. When $500,000 has been subscribed and $250,000 deposited with the Minister of Finance, a meeting of shareholders is to be called to elect Directors. Application may then be made for a certificate to do business. This application must be made within one year

from the date the charter was granted, or the charter automatically lapses. The minister is then expected to make a thorough investigation of the circumstances surrounding the incorporation and flotation, a verification of the paid up capital and if the venture meets with his approval the certificate is granted. This protects the public against fraud or any form of evasion of the Act.

In the first place it may be assumed that the bank starts with its capital paid up in full and in cash. It has, we shall say, a capital of $1,000,000. The Finance Minister has returned $250,000 deposited with him less $5,000 which is held to insure speedy redemption of the note circulation of any failed bank. This deposit is adjusted annually to equal 5% of average note circulation. The bank is allowed 3% on any sum so held. The Directors may at once invest any proportion of the bank's capital in loans to the public—securities, bank premises and any and all of the various assets of a bank. It has at once the power to issue notes to the amount of its fully paid and unimpaired capital stock. These notes have back of them the bank's invested capital of $1,000,000 liquidation of which would satisfy the note holders. The bank thus has another million dollars to invest. The public

is invited to deposit as well as to borrow and deposits of one million, two million or more as received are available for investment in such forms as are approved by banking practice, less, of course, a proportion which must be held as cash to meet the daily demands of deposit customers wishing to withdraw a portion of their funds.

The banker cannot take the risk of lending all this money, as he does not know what demands may be made upon him. If he were the first banker he would have to proceed very cautiously, learn by experience and the laws of averages deduced from his records. He now has, however, the experience of bankers for generations and it only remains for him to discern the nature of his particular business, estimate its possibilities and determine whether or not the usual reserves will satisfy his requirements. The law makes no stipulation as to the amount of cash a banker should carry, this being very properly left to his own discretion and intimate knowledge of his business. He is, however, required by law to see to it that 40% of his cash reserves is in the form of Dominion notes, an unnecessary tinkering by legislation with monetary laws, but he must abide by it and it really is no great burden. In the making of

investments the banker invests a certain proportion in a form, which is at once convertible into cash at a moment's notice. These investments take the form of deposits in other banks against which he may draw, call loans, and securities of a readily realizable nature. The total reserves, to accept a popular theory, should be 40% of the bank's liabilities to the public but it depends largely on circumstances and the nature of the bank's business. The reserve may be even greater than 40% of the bank's liabilities to the public or it may be safely shrunk to 33⅓%. The cash on hand may run from 12½ to 15% and is frequently referred to as the first line of defense, while the balance constitutes the second line of defense.—Investments in securities have been regarded in another light as the third line of defense, on the theory that the first and second will meet any contingency but this is overlooking the fact that the ratio must be maintained and that it may be necessary to convert from third to second, at the first sign of trouble. We assume, therefore, that a bank founded on such a basis is able to conduct its business meeting all demands made upon it by its depositors and even keeping its commercial loans free from stagnation and maturing at early dates, thus giving him such

ready control that it may expand or contract its loans as circumstances demand. This is as simple an explanation of one of the fundamental bases of banking business as it seems possible to make.

Let us now suppose that our banker is the only one in his little world. Upon him falls the duty of providing the circulating medium. The country grows by leaps and bounds and in a few years trade transactions actually treble in volume. The million dollars of circulation long since has proved inadequate. The banker must not increase the amount since the law forbids that he shall make promissory notes for more than his capital invested. The demand becomes embarrassing. What can he do? He cannot even use credit and encourage cheque money, as his loans are up to the limit of safety and he has no more than the proper reserve. The Government wants money to carry on a foreign war. It must borrow money from the banks as it dare not issue fiat money. The banker says to the Government, "You could issue your notes, could you not, if you had some real security back of them?" "Oh! Yes." "Very well then," says the banker, "I shall hand you one million dollars in war bonds, Government Treasury certificates or some such security and

then you issue legal tender or Government notes against it, lending me the amount. I cannot make use of the Government notes so I shall deposit these in the Government Depositary for gold and issue my bank notes against them." This is done and what is the result? The banker still regards the securities as his. He includes them in his assets but they are actually subject to a mortgage. He has taken away or weakened his second line of defense. Should he suddenly be met with an unexpected and extraordinary demand from his depositors, he might find his first line gone and his second so materially weakened as to cause embarrassment. He can however, meet his obligations by paying them in new promises to pay, his own notes, provided he can find more securities to mortgage, otherwise he must prepare a new notice for his door, "This bank has suspended payment." No one will deny that the fault is in the first instance the banker's and the Government becomes accessory after the fact by acquiesing in a plan to get him out of his difficulties, which was not sound economically. The fact that the additional circulation is required may at the moment of necessity justify in a measure the expedient adopted, but the real cause of the trouble was that the banker

did not grow with the country, which we assumed had multiplied its business transactions by three. He did not wish to increase his capital as that would have made it harder to pay the huge dividends he had been paying. It seems quite logical to conclude that the Government should have insisted upon an increase of capital and the banker should have been informed that the Government would not permit him to continue handling all of the business on a capital which was out of proportion to the volume of trade, that overtrading must cease, and that otherwise the door would be opened to competitors who could provide the necessary capital.

Let us expand this hypothetical case just a little further. The banker has among his customers a group of men who are anxious to found a new bank. The bank, which has monopolized the field has a capital of $1,000,000. It presented a statement approximately as follows:

LIABILITIES

Note of bank in circulation	$ 1,800,000
Current Account deposits	2,500,000
Interest bearing deposits	11,200,000
Due to Government	800,000
Liabilities to Foreign Banks, etc.	120,000
	16,420,000

Capital Stock		1,000,000
Reserve Fund		1,000,000
		$18,420,000

ASSETS

Specie	250,000	
Dominion Notes	1,500,000	1,750,000
Central Gold Reserve		1,000,000
Note Circulation Fund		90,000
Notes of and Cheques on other banks		900,000
Due from Foreign Banks, etc.		500,000
		4,240,000
Various Government and other securities		2,000,000
Call Loans		560,000
		6,800,000
Current Loans		9,000,000
Bank Premises		700,000
Other assets		1,920,000
		$18,420,000

The deposits of the old bank, it will be noted, are $13,700,000. The new bank obtains its capital from these deposits. It may demand cash from the other bank, or part cash and part drafts on correspondents opening small accounts in foreign centres. It has a proportion for investment and finds a ready demand on the part

of customers of the old bank who could not obtain facilities necessary to carry on business due to the old bank having reached the limit of its resources. The new bank at once has the power of note issue, and as the demand for circulating medium and loans has exceeded the supply, the note issue is quickly put in circulation. The old bank redeems the excess of $800,000, recovers its legal tenders from the federal gold reserve, pays the Government the $800,000 legals which it borrowed, recovers its $800,000 securities, which were held by the Government as security for loans of legals, and thereby improves the second or third line of defense. They hold $2,000,000 in securities unmortgaged, whereas formerly they had $2,000,000 mortgaged for $800,000.

For a time the old bank is worried and annoyed at the competition, even it is in a stronger position, as its reserves now bear a greater percentage to public liabilities than before. It can at once take advantage of the improved position by reducing reserves to the former percentage, releasing funds for public use. The new bank carefully fosters legitimate industry and enterprise, which was severely handicapped under former conditions. The change is an impetus to production, business activity and

new enterprises of a sound nature. Unrestricted business efforts bear fruit. The product of man's labour increases money. Abstinence increases capital and in a few years the old bank is sharing in the prosperity made possible by the new venture. Had the monopoly been protected by the Government it could not have coped with the growth, and like all monopolies, its position would have been threatened by a tendency to be satisfied with large profits, to become inert or indifferent to anything other than its own existence.

In passing I wish to refer to the hypothetical statement constructed for purposes of this discussion. It will be noted that the bank has accumulated a reserve fund of $1,000,000, and it may occur to some of my readers, "Why should notes not be issued against Rest Account?"—"Is not Rest equivalent to capital?" Yes and No. The wise banker will treat it so in so far as investing it prudently is concerned, even though it is human nature to be more profligate with profits than with capital. Rest or Reserve Fund is accumulated profits, sometimes augmented by the premium on new stock sold. The Directors may at any time dispose of surplus profits by a pro rata division among stockholders or the Directors may regard it as an expansion

fund. Banks have been known to impair their rest account, some of course, have impaired their capital as well. Rest account may be practically wiped out and still appear on the statement, as might readily be shown by writing up bank premises or using some other subterfuge to conceal huge losses. Promises to pay intended to circulate as money, should not be issued on the strength of Rest Account. If the bank wishes it may convert its Reserve Fund into Capital, but it would have to retire from the high dividend competition. The bank should maintain a very substantial Reserve Account, for more reasons than one, and in addition to any amounts they are able to conceal in *"Hidden Reserves,"* but it should not issue notes against any such account.

While we have this hypothetical bank before us it might be well to remark, that it does seem to have been a bit unwise for this bank having all it could do to develop its young country, to have spent $700,000 in Bank Premises, and we may assume they have written off large amounts, —in fact it is not altogether an assumption, as this imaginary institution was constructed from an actual case,—a miniature of an existing institution in Canada, and the statement reads: "less amounts written off." The question may

fairly be raised—Was the bank justified in expending for bricks and mortar, marble and mahogany, an amount almost the equivalent of its paid up capital stock. Was such an unproductive investment warranted in a country young and needing capital for the development of its natural resources? Does the bank's action not display an inclination to satisfy their own vanity, put on unnecessary swagger, and to follow a policy dictated by selfishness rather than one formulated on the principle, that whereas it was founded to fulfil a certain duty to the community, the community's interests should take precedence over an obsession to own a stone building on every street corner?

Canada's Bank Premises have increased 522% in 16 years. Bank Premises Account is slightly more than half the total capital stock. Large amounts have been written off this item and some banks own stock in companies founded to function as holding companies for their real estate. There has been altogether too much capital invested in bank buildings in Canada.

ASSETS

	June 1904	October 1920
Dominion Notes	$31,578,329	$78,921,891
Specie	17,156,933	79,828,476
Deposit for security note circulation	3,229,002	6,293,982
Notes of, and cheques on other banks	20,147,353	204,669,606
Due from Agencies and other Banks	22,169,679	5,882,097
Dom'n & Prov'l Govt., Securities	10,674,984	119,010,967
Mun. & Pub. Securities, railway and other bonds	54,384,532	248,480,495
Loans to Dom'n & Prov'l Government	2,490,441	14,361,485
Call Loans on Bonds ...	36,738,423	113,135,902
" " " " elsewhere than in Canada	37,030,301	188,367,459
Loans to, or deposits in other Banks	6,200,014	82,446,915
Current loans in Canada	413,392,863	1,405,401,227
" " elsewhere	19,183,302	193,749,657
Overdue debts	2,002,934	6,637,619
Mortgages on R. E. and Real Estate other than Bank Premises	1,473,876	6,968,232
Bank Premises	9,662,251	60,125,795
Other Assets	6,788,198	3,123,071

Letters of credit as per contra		47,635,099
Loans to cities, municipalities		71,374,060
Deposit Central Gold Reserve		119,202,533
TOTAL	$694,303,415	$3,155,616,568

LIABILITIES

	June 30th, 1904	October 1920
Capital	$79,193,028	$127,269,427
Circulation	60,098,480	249,165,707
Deposits:—		
On Demand	115,934,016	687,651,781
After Notice	307,940,014	1,271,275.751
By other Banks	3,615,212	15,377,031
Elsewhere than in Canada	35,292,092	339,955,233
Balance due other Banks	9,630,705	59,278,460
Balance due Domn'n & Prov'l Govts.	9,536,325	185,072,150
Other liabilities	12,399,067	13,104.917
Acceptances under Letter of Credit		47,635,099
	$554,445,911	$2,868,516,196
RESERVE	52,312,208	130,413,330

CHAPTER VI.

A COMPARISON OF CANADA'S BANKS IN 1904 AND 1920.

NOTE:—The use of the statement of 1904 is not a matter of selection for a purpose, but merely a matter of convenience to the writer. Some items would not show a true comparison, as since 1904 there has been a change in the method of classification. I have reconciled in so far as possible from the information I have before me, the two methods of preparing the Government statement.

IMMEDIATELY preceding this chapter there appears a comparative statement of the position of the combined banks as at June 1904 and October 1920. A study of the comparison discloses some very startling facts regarding the trend of Canada's banking business. This may possibly be a matter of surprise even to those who have a more or less intimate relationship with the business. It certainly proves that there is an urgent necessity for an immediate remedial policy of some kind.

It will be seen that in 1904, the total paid up capital of the banks was $79,000,000. The Clearing House figures for year 1904, show a total of $1,625,680,194. The total assets of the banks amounted to $694,000,000. Figures which

would denote turnover in business are impossible to obtain but it is quite fair to take the growth of bank assets as indicative of the percentage of increase in turnover. It seems the only fair method of comparison unless we take the record of bank clearings.

The total capital of the banks was equivalent to 11% of the total assets and also equivalent to 4% of the bank clearings. On January 31st, 1920 the total paid up capital of the banks was $128,460,000, the total bank clearings $20,276,-804,005 and the total assets $2,926,867,000. The paid up capital was then equivalent to .63% or slightly over one half of one per cent. of bank clearings and 4% of the total assets of banks.

Can it reasonably be assumed that the bank proprietors had too much of their own money invested in their business in 1904? Would it be reasonable to say that the country had too much banking capital in 1904? That would clearly be an absurdity, because banks must be sufficiently capitalized, as we have seen, to provide the necessary circulating medium of the country and in those years there was very little margin at times between circulation and paid up capital. To repeat and to touch upon a matter already discussed, I concede the banks greater privileges than they now have in the

matter of note issue inasmuch, as I would give them sole rights to the exclusion of Government issues, but in doing so I assume it to be the duty of the banker to supply all the circulating medium that is necessary. A further indication that this was not an over supply of capital, is the fact that it existed, since it would not have come into being without a demand and would not have been attracted without profit. We may therefore, state it as a fair premise that the relaive proportions in 1904 were correct from a banking standpoint.

Starting with the assumption that the position of 1904 was not one of too much capital, we may ask of our bankers the following pertinent question: Why were not relative proportions reasonably maintained? Why was the percentage of paid up capital to assets allowed to decrease from 11% of the total assets to 4% of the total assets? If bank clearings are an indication of volume of business what warrant is there for our bankers undertaking to handle it on a capital equivalent to only .63% of the business, where 16 years ago they considered it necessary to have 4%. In the one case the comparison would show that they have only one third of the amount they should have and the other between one sixth and one seventh. The ex-

tension of the clearing house systems from eight cities to include twenty small towns, might explain the difference in the two methods of comparison. In any event, it is absolutely beyond controversy that these figures clearly show the banks to have been overtrading. They have been endeavouring to handle the rapidly growing business of the country on a capital, which is much too small. They do not keep pace with the country's growth. Other interesting comparisons may be made but I shall refer to only two. The proproportion of capital to commercial loans was 15% and on January 31st, 1920 it was 6%. Deposits and loans have quadrupled in that period, yet capital has not even been doubled.

Let us now observe the evolution that has been going on in the note circulation.

Until 1908 it was impossible for the banks to issue notes in excess of their paid up capital stock. Prior to the time mentioned bankers would have held up their hands in holy horror at the thought of exceeding the limits, and a very heavy penalty would have been imposed and if I remember correctly, was imposed for such violation of the Act. As it once fell to my lot to watch the circulation of the institution with which I was employed, I know that there

were many times when the situation had to be closely followed to make sure the limit would not be exceeded. I remember also that some of the older established banks had to adopt the practice of using other bank notes to satisfy the requirements of the people for a circulating medium. I am not divulging the secrets of any institution, as it was patent to the public and while in the telling box, I have been asked by customers, "Why are you paying out Commercial Bank of Windsor notes?" Some knew why. Others did not. We had to be guarded in our replies to the average man, as there seemed to be a something about the practice which aroused an unwarranted suspicion. It was thought by some to be a sign of weakness and the practice was confined as much as possible to city branches. It was known also to customers that the bank of New Brunswick circulated Metropolitan Bank notes, that the Bank of Nova Scotia also circulated them, and one other bank did the same. This was done by arrangement with the Metropolitan Bank, each issuing bank having its own distinguishing serial letter on the notes. I have seen customers amazed and slightly disappointed when I have passed across the counter a pay roll or large amount of money consisting largely of new, crisp, Metropolitan

Bank notes with numbers in rotation, indicating that never before had they been handed the public. Very little was known at that time in the Maritime Provinces regarding the Metropolitan Bank. I mention these incidents to show that there was a growing demand for circulation, which the banks could not meet without leaning upon their newly founded competitors. I wish to show also that the scarcity of circulation and the straining against limits existed long before the War broke out. Some people find it too easy to blame the War for all conditions, whereas the facts are, as bankers could tell if they would, that in some directions matters had assumed a very serious aspect and a crisis, which many expected, was averted by the conflict.

For many years the Banks had a very able champion in Mr. H. M. P. Eckhardt, who contributed weekly to the columns of our financial journals, and was the author of several works on banking. He was always regarded as an authority and he could be depended upon to make a good case for the Canadian Banks against all criticism. It is interesting to note what he had to say on this subject. In an article entitled "Self Reliance in Banking," he strikes, in an indirect way, at the policy of procuring aid from

the Government, little thinking, I assume, that by 1920 the banks would owe the Government as much as their total paid up capital for just such an expedient, as he deprecated. The following is quoted from the article mentioned:

> "One searches in vain, in Europe and America for any banking system, as well adapted as the Canadian for developing in the banking fraternity a sturdy spirit of self reliance. In the United States that spirit is notably deficient. The bankers there do not calculate upon fighting a great panic or crisis solely with their own resources. It is the custom of the banks to run for help to the United States Treasury. If a central bank is created they will look to it for help instead of to the Government." . . .
>
> "It cannot be said that the Canadian Banks look to the Government to help them in an emergency. True the Government came forward five or six years ago and offered to lend money to help the banks move the crops. But the banks did not ask for that assistance, and only two or three of the smaller concerns availed themselves of the offer. *It was not at all necessary and it would have been better if the Government had not meddled.* The action was taken because some parties in Western Canada, outside the banks, were afraid the banks could not move the crop."

> "If there should be a panic or crisis at any time in the Dominion it will be quite clear where the responsibility for fighting it rests. It will be upon the executive of the Bankers' Association. And we may be sure that that body will take up the gauge without hesitancy and without panic. It will deal with any situation that arises quite as promptly and quite as efficiently as a central bank could."

In this article Mr. Eckhardt scorns the idea of banks going to the Government for help and his views were those also of one of Canada's most prominent and most successful bankers, who I am told made the statement that any bank which would take advantage of the excess privilege should be carefully inspected. And yet practically all of the banks were a few years later availing themselves of the amendment of 1908, which permitted an increase in notes of 15% of a bank's combined capital and surplus between September thirtieth and January thirty-first. This amendment was the first mistake made in Canada's bank note circulation. The law was quite all right, as it had stood and the Minister of Finance should have told the banks that the Government would permit no excess circulation, that if they wished or needed more circulation they would themselves have to pro-

vide it by an increase of capital. When the Minister did not do so and provided the easier way, he opened the door to a practice which made it convenient for the banks to get along without increased capital, and it opened the door to a practice which sooner or later will lead to trouble. We are now in a period of depression; contraction of note issues is going on; but suppose the big boom, which so many prophecy finally arrives. Suppose unexampled prosperity were to come to-morrow and we would reach higher peaks than ever. Suppose we have huge increases in deposits, doubling we shall say, the present figure and there is a corresponding demand for loans. Where will the banks stand? It will simply be that in order to supply the demand for circulation, every dollar the bank owns in securities would be pledged to secure the excess issues and then there would come a demand for a Federal Reserve Bank, to establish another pawn system for the rediscount of commercial paper. We do not need a Rediscounting Bank. Under no consideration should our Government establish another machine to enable our existing banks to manipulate credit for the purpose of increasing the dividend rate or the rest account, and enable them also to continue their antagonism to new

banking institutions. Our system as it was in theory, twenty years ago, is all that is required. What has crept into the system is monopoly, the elimination of competition. If the country is to grow, let Parliament incorporate new banks, let the people transfer some of their savings from old savings accounts to new capital stock.

Our system will surely fall down if for 16 years we go on as we have been doing the past 16 years. Instead of the depreciation of 11% to 4%, we would have from 4% to about 1%, and the percentage of banking capital to turnover would have to be expressed in decimals.

What would be the position to-day, if our banks had maintained the same relative proportions of 1904? Our paid up banking capital would be $320,000,000 instead of $129,000,000. The note circulation on January 31st, 1921, was $206,000,000, so instead of having an excess of $77,000,000, there would have been an available margin of $114,000,000. What our bankers are aiming at, is to bring the circulation down to the amount of the paid up capital, which means that they must shrink the currency to $129,000,000 after January 31st, 1922. In October, 1920, the circulation amounted to $249,000,000. In three months this was reduced by $43,000,000 and by June 30th, 1921, the banks had taken another

$10,000,000 out of circulation. The reduction of $43,000,000 in three months was not a natural slacking off of industry but it, without doubt, was due to the concerted action of the banks, curtailing loans, calling loans in all directions and contributing in a general way to other conditions, which were calculated to stagnate industry. Just exactly as did the paper hoarding panic of 1893 close up industries, so the action of our banks, during the time mentioned, aggravated our financial troubles. It was a time for courage not fear. Fearing a slump caused the banks to withdraw credit suddenly, and the withdrawal gave impetus to the unfavourable movement. If bankers understand the operation of these laws, why do they become so panicky? Why do they withdraw their support when to refrain from such action would obviously ease the fall and cause less disturbance?

I wish to point out further that this reduction of $43,000,000 was brought about during the months in which the banks had found, in other years, excess circulation was necessary. The actual reduction or withdrawal from ordinary industry is therefore, hard to calculate as it is difficult to estimate just what was used for crop moving purposes. It may be argued that the contraction of circulation was natural but any-

one knows that there have been cases where industries have been embarrassed for need of bank advances, to which they were entitled. In October, current loans in Canada amounted to $1,405,000,000—On January 31st, under the same heading we find $1,264,000,000, a shrinkage of $141,000,000—while public deposits decreased only $61,000,000. This shows clearly what the banks were doing. They were paying off the Government or rather to express it better, they were returning the borrowed legals, which were not money to the Government, being merely created against securities, and which could not again be issued except in a similar way. There can be absolutely no denial of this, as there has been too much talk about inflation and the dire necessity to deflate and contract. The banks of Canada to-day, stand indicted before the business public of blindly, ignorantly and selfishly assisting to bring on the very conditions, which they feared. It would be idle nonsense to say otherwise. Let those who have been denied accommodation speak out and tell how their businesses were handicapped and the total will be found to be a very substantial amount. I know of industries, which have never slackened during the reconstruction period so far, which had demands they could

not fill and after reducing loans to one half what they had before, the bank insisted on further reductions. Could anything more idiotic be imagined, as such impractical ideas originating with men who set themselves up as the Judges over Israel. Why such haste to contract circulation, which was needed and which had been obtained by such doubtful expedients, only because the banks had been overtrading, and had placed themselves in a position of inability to supply the facilities, which their charters expect them to supply? The answer may be made, that the banks could not have been so short-sighted as these statements would indicate, that there must be some deeper reasons underlying an apparently unreasonable attitude, as surely the banks with their broad experience would know that ruin of business would act as a boomerang. Possibly, but nevertheless the facts and figures speak for themselves and it is patent to everybody that forced contraction preceded our depression. This policy is justifiable in many cases, as business men have not always heeded danger signals, but nothing can justify such a wholesale impounding of capital, as took place between October, 1920, and January 31st, 1921. It would seem that a reduction of prices was the end sought. A quick fall in prices is a slump,

and this means heavy losses, cessation of trading, and all the ills that follow in the wake of a depression. Is it not strange that we who have been so anxious to see prices come down are merely waiting for the bottom to be reached in order that we may experience the joys and pleasures of an upward market? When the turn comes and we start upward, we will not care how high it goes and we shall repeat the same performances exactly, just as though there would not again be a slump. World conditions made our recession inevitable but there was no need of pushing us out of a tenth story window to save our lives when we might have been led down the fire escape.

In the early spring following, I enquired of a prominent banker if there was any disposition to ease up and his reply was, that the loss of deposits was commencing to worry them. What in the world did they expect? Could such an enormous contraction of loans and circulation take place without bringing about a decrease of deposits? I am not forgetting that there has been a serious disturbance and a crisis in world affairs, that our foreign markets have been dislocated and almost shut off, that various factors contributed to changed trade conditions, but the existence of these factors should have been a

reason for a different policy in the solving of our economic problems.

Is it possible that our bankers and financiers, in joint conference, may have reasoned thus? "The world is out of joint. There is likely to be a slump. Prices must come down, but labour must first come down. Labour thinks prices must come first or it cannot live. Labour is stubborn, so the only thing we can do is to force labour to it. Close up some of your factories, and we will tighten up on things generally. That will bring the labouring man to his knees." Such a possibility is so freely discussed and in fact, stated with instances as cases in point, that it would be well to examine the theory in passing. Those who have heard such statements have as good an opportunity to judge of their merits as the writer. It would not be surprising to find that another natural economic law or the same law in a different setting, had been ignored. Labour is a commodity, notwithstanding there are trade unions, and what is now being accomplished in the way of reducing wages would have been brought about gradually, by an adjustment here, a reduction there, first in one line, and then in another. To accomplish this by force and at once causes insolvency, non-production, poverty, hardships

and crime. It is my purpose to publish within a few months a more comprehensive article on "The power of the Labourer's hire," and shall therein deal with labour's relationship to capitalism, not capital, and shall offer for the consideration of labour a solution of the problems so disturbing to them at the present time.

Reverting again to the comparative statement beginning this chapter, I have shown that Canada's banks are short of the relative amount of capital to assets operating in 1904 by at least $191,000,000, which means if it means anything, that there is room in Canada for a bank, say of $100,000,000 capital, or for ten banks of $10,000,000 each. That would be a most sudden growth and probably impossible of accomplishment immediately, but the foundation should be layed.

Where shall the business come from to support new banks? Are we not overbanked now with a branch bank on every street corner of our large cities and in every town and village in Canada? Of what use is a railway service to a community, to the Maritime Provinces for instance, if it carries freight one way only, if it draws away its lumber, coal and fish and carries back only such quantities as may suit its own convenience. Would Canada be con-

tent to have her banking resources under the control of English capitalists who might take it into their heads that London being the money centre offered better opportunities for the seat of control and place of disbursement of these monies? Would Canada be pleased to find that when she needed money the controlling element had large amounts invested in London, Liverpool, Manchester, Cuba and Mexico. Such would be an exact parallel to the position in which the Maritime Provinces are to-day, or to the position of the West. The position of some Ontario towns is not much better, although proximity to the centre modifies to some extent the general conditions mentioned.

Canada is not over banked. It is under banked. It has too many deposit gathering offices and not enough real service stations.

The development of the West will be pointed to as one of the achievements of the Canadian Banks. It is true that the pioneer banks played a most important part in Western growth but no banker will be so presumptuous as to say that there was not more incentive than one of nation building. This would seem to contradict my statement that the branch system is extended for deposits. It by no means does so. Branches have been extended to gather in the money of

the East and let us see what the views of a member of Parliament were, some twelve or fifteen years ago, regarding the operations of our banks in Western Canada. I shall quote from an interview given by Mr. R. A. Pringle, M.P., for Stormont.

"At the present day there is no law now in force which renders a bank liable to incur any penalty or forfeiture for usury. It is true that in Section 91 of our present act, the rate of interest which the bank may ask for take reserve or exact, shall not exceed seven per cent. and no higher rate of interest shall be recoverable by the bank. However, the banks have very ingeniously got away from this provision. I find in looking into the authorities that the banks, particularly throughout the West, have been exacting as high as twenty-four per cent. and eighteen per cent. is common, and they have succeeded in sustaining their positions on the ground that the excess of seven per cent. was paid voluntarily, in several cases tried in the courts. The evidence as to these excessive rates was given and our Supreme Court has held that if a debtor voluntarily pays the excess of interest over seven per cent. as for instance by giving his cheque to the bank for the same, he cannot recover it."

"The fact is, as our law now stands, our banks are in a position to create a stringency in the money market and charge borrowers any rate they may deem fit."

"As a matter of fact they have been charging from eighteen to twenty-four per cent. in the Western country." . . .

"I intend," said Mr. Pringle finally, "to introduce some amendments to the Bank Act. As our banking institutions are the greatest monopolies we have in the country, I will, no doubt, meet with vigourous opposition."

Whether or not the conditions recited in this interview were correctly reported, I would hesitate to say, but it clearly shows at any rate, the motive for Western development. I have not quoted Mr. Pringle's remarks regarding an existing money stringency, but the tenor of the whole interview was indicative of something more than a casual complaint. No fault is to be found with a spirit of aggressive development even for huge profits, provided those who are entitled to first consideration are not injured thereby. It is evident that the interests most concerned in Western development were not so much concerned with Eastern development because the former paid them a higher return. Let a man invest his own capital where he

chooses but if he holds a public trust let him weigh carefully how he shall use that trust. It is common knowledge that one institution in Canada found its bed an uncomfortable one, as a result of too much Western activity.

I have no published report of Mr. Pringle's experiences subsequent to the publication of this interview and my memory is not clear as to just what happened. No doubt he was suitably rewarded for the interest he displayed in Canada's financial system, but possibly a little curiosity on my part might save me from some harrowing experiences.

CHAPTER VII.

BANK ELIMINATION AND BRANCH EXTENSION IN SIXTEEN YEARS.

IN 1904 there were 34 banks in Canada, with about 1,100 branches. In 1920 there were 18 banks, the present number, with nearly 5,000 branches.

The following is a list of the banks operating December 31st, 1904, showing the number of branches in each Province of the Dominion:

NAME OF BANK	ONTARIO	QUEBEC	NEW BRUNSWICK	NOVA SCOTIA	P. E. ISLAND	BRITISH COLUMBIA	MANITOBA	NORTH-WEST TERRITORIES	YUKON	TOTAL	FATE
Bank of Yarmouth				1						1	Failed
Peoples Bank of Halifax		10	8	9						27	Montreal
Union Bank of Halifax				1	30					31	Royal
La Banque de St. Jean		3								3	Failed
St. Stephen's Bank				1						1	Failed
Peoples Bank of New Brunswick			1							1	Montreal
Bank of New Brunswick			6		2					8	N. S.
Imperial Bank of Canada	22	1				8	4	8		43	
Bank of Montreal	27	8	4	5		10	4	6		64	
La Banque Nationale	1	28								29	
Union Bank of Canada	28	3				28	28			87	
Quebec Bank	5	13								18	Royal
Sovereign Bank of Canada	36	7								43	Failed
Eastern Townships Bank		29				2	1			32	Commerce
Royal Bank of Canada	4	4	11	16	2	10				47	
Western Bank of Canada	14									14	Stand.
Ontario Bank of Canada	22	2								24	Failed
Bank of Toronto	34	6				1				41	
Dominion Bank	27	1				6	1			35	
La Banque de St. Hyacinthe		5								5	Failed
La Banque Provinciale du Canada		18								18	
The Molson's Bank	32	11				2	1	1		47	
The Metropolitan Bank	14									14	N.S.
Merchants Bank of Canada	57	14				11	11			93	
The Crown Bank of Canada	11	1								12	North
The Standard Bank of Canada	26									26	
The Canadian Bank of Commerce	47	1	2	15		12	14	13	2	106	
The Traders Bank of Canada	50									50	Royal
The Bank of Ottawa	29	8				5	2			44	N.S.
The Bank of British North Am.	14	5	3	1		7	3	6	1	40	Mont.
Bank of Hamilton	43					2	15	6		66	
Merchants Bank of P. E. I.					1	4				5	Comm.
Bank of Nova Scotia	5	2	12	23	2	1	1	5		51	
Banque d'Hochelaga	1	16								17	
Total	549	196	49	101	10	55	93	87	3	1,143	

The following denote the number of branch banks in each Province as at April 30th, 1920:

Ontario	1494
Quebec	1092
Nova Scotia	160
New Brunswick	119
P. E. Island	34
Manitoba	330
Alberta	424
Saskatchewan	602
British Columbia	227
Yukon	3
Newfoundland	46
Elsewhere	129
Total	4660

It will be remembered that in an earlier chapter it was stated that in 1904 bank capital was equivalent to 11% of total assets, while in 1920 the ratio had been decreased to 4%. Therefore, not only did the banks fail to maintain their position in this respect, but they carried on a policy of expansion until they had four times as many branches with only a ratio of 4% between capital and total assets.

Let us suppose that each bank would require for premises, and let furniture and equipment only be included in this, say the small average of $1,000 and that each branch would carry in

cash an average of $4,000, we would have a total capital locked up of $26,000,000, so that relatively the position is so much worse than is indicated by the comparison of 11% and 4%.

Nineteen of the banks existing in 1904 have disappeared. Only six of the nineteen were failures, and not all of the six would have gone to the wall if there had been any anxiety to save them.

The greatest losers by this mania for absorption have been the business interests of the Maritime Provinces. Eight of these institutions were Maritime Province banks, including The Bank of Nova Scotia, although it had already moved its General Office to Toronto. Out of the eight there were only two failures, with total liabilities to the public of less than $900,000, all of which was paid in full.

It may be interesting to go back a few years prior to 1904, say 1901 or twenty years ago, and give a list of the Maritime Provinces banks with fate of each:

Bank of Nova Scotia—Now ranking fourth place, with General Office, Toronto.

Bank of New Brunswick—Absorbed by Bank of Nova Scotia.

Merchants Bank of P.E.I.—Absorbed by Canadian Bank of Commerce.

Exchange Bank of Yarmouth—Absorbed by Bank of Montreal.

Union Bank of Halifax—Absorbed by Royal Bank of Canada.

Peoples Bank of Halifax—Absorbed by Bank of Montreal.

Halifax Banking Co.—Absorbed by Canadian Bank of Commerce.

Peoples Bank of N.B.—Absorbed by Bank of Montreal.

Commercial Bank of Windsor—Absorbed by Union Bank of Halifax.

Bank of St. Stephen—Failed.

Bank of Yarmouth—Failed.

We may point with pride to the record of the Maritime Provinces in founding strong financial institutions, adding to this list the Merchants Bank of Halifax, afterwards the Royal Bank. With the exception of two banks, one founded in 1816 and another 1817, the Bank of New Brunswick was the oldest institution in Canada, being founded 1820. From 1886 until its absorption in 1913 it never paid less than 12% dividend. For years its shares commanded a higher price than the stock of any other bank. I believe there is record of sales at 303. The people of St. John, New Brunswick, were bitterly opposed to this transfer and though they had an interest many times greater than the shareholders, and a pride equal to theirs, they

were obliged to see control of local banking resources turned over to an institution whose nominal Head Office was in the rival port of Halifax, but with the actual Head Offices at Toronto. The institution passed out of existence not because it was lacking in earning capacity, not for want of business, nor because of competition; it should not have been sold, and it need not have been sold. It was the last remaining Maritime institution and should have been so jealously guarded, that it would have remained in existence and had it made progress equal to its record for ten years prior to its absorption, it would doubtless have to-day sixty branches in the Maritime Provinces.

CHAPTER VIII.

WASTE AND INEFFICIENCY.

IT WAS remarked at the beginning of the preceding chapter that while the banks act in concert in matters furthering their own interests, such as interest rate, legislation and all subjects and phases likely to culminate in organized opposition, yet they are engaged with one another in a struggle for supremacy in business and we have seen a contest between two banks for the leading place as Canada's greatest bank. Every bank is trying to show larger totals, larger business than its class competitor. This has led to one of the most insane practices imaginable, that of opening branches where they are not required. It seems hardly possible that men who preach economy, efficiency and avoidance of unnecessary expansion, would themselves practice the very reverse. Two banks have been known to open their offices in a village on the same day, in fact this may be said to be a common occurrence. Bank A and Bank B may each have a branch at X. A few miles away is a small farming locality where Bank A has deposits of $100,000 lodged

at their X office. Bank B conceives the idea of opening a branch at the smaller locality and Bank A jumps in immediately to protect its business. There is not enough business to warrant one branch but the fight for business, no, for deposits, goes on, at the expense of the public, and at the expense of clerks who eke out a bare existence on half pay.

An analysis of Canada's branches made some time ago, showed the following:

1970	places	with	1	branch
515	"	"	2	branches
115	"	"	3	"
42	"	"	4	"
18	"	"	5	"
16	"	"	6	"
6	"	"	7	"
8	"	"	8	"
3	"	"	9	"
5	"	"	10	"
1	"	"	11	"
2	"	"	12	"
3	"	"	13	"
2	"	"	14	"
1	"	"	17	"
1	"	"	18	"
1	"	"	23	"
2	"	"	24	"
1	"	"	26	"
1	"	"	39	"

1	"	"	43	"
1	"	"	45	"
1	"	"	55	"
1	"	"	82	"
1	"	"	87	"
1	"	"	220	"

Of the branches located in points where there is only one bank, there are probably three hundred, which could be closed with profit to the bank and without serious inconvenience to the people.

Five hundred and fifteen offices at two branch points could be closed, as there are no towns with only two banks where one could not do the work.

It is not necessary to deal with each class but anyone may estimate that 1,600 branches could be closed releasing probably $7,000,000 or $8,000,000 of capital—and making an annual saving of $12,000,000. This would be allowing an average of less than $8,000 for salaries of manager and staff, rents and all incidental expenses. Additional staff might be required at many points to handle the increased business and there would naturally be some additional expense, but in the majority of cases it would be found that no extra staff would be required. Think of it! Wasting, we shall say, eight or ten million dollars each year in a race for

supremacy, in a mad scramble for deposits, while bank clerks live or try to live on starvation salaries.

The facts and figures just recited may seem to indicate that further progress toward monopoly is desirable. That would be true under certain conditions, which I shall not mention as it leads to a conclusion equally undesirable. This is in no way subversive of other theories expressed in this book, for instead of competition for deposits between members of a loan trust, we require a healthy competition in general banking business, the kind that will develop all sections of the Dominion and benefit all classes.

The following are a few facts disclosed by the statistics re branch extension quoted in the last chapter:

The City of Toronto has more branch banks than Nova Scotia and Prince Edward Island combined or New Brunswick and Prince Edward Island combined.

Manitoba has more branch banks than all three Maritime Provinces combined.

In 1904 Alberta and Saskatchewan were listed under Northwest Territories with 87 branch banks. These two provinces now have a total of over 1,000,—more than six times as many as the Province of Nova Scotia and over three

times as many as the Maritime Provinces combined. This was not the race for deposits but the race for the high interest rates objected to by Mr. Pringle and higher rates still obtain in the West than in the East.

There are to-day thirteen Maritime Province men acting as Directors of banks with Head Offices in Montreal and Toronto. In 1904 the Maritime Provinces had not less than 35 men interested in banking development and in 1900 there must have been between 60 and 70 actively associated with the financial upbuilding of these Provinces through the medium of the banking business.

These statistics tell a story that is of vital interest to the Maritime Provinces, but there is further food for reflection in the fact that in many instances the people themselves have exported their own capital. Banks without any representation whatever in the Maritime Provinces have a number of stockholders. For instance, stock in one bank to the market value of $295,000 is owned in the Maritime Provinces and that bank has not one branch in either of those Provinces. It is doubtful if it has ever loaned or invested a dollar in that part of Canada.

CHAPTER IX.

COMPETITION AND INTEREST RATES.

IT IS an anomaly that while there is a free masonry between the banks and an association which brings about a working agreement on many phases of banking, there still exists an extremely keen competition. The competition is however, confined mostly to the securing of deposits. They can agree readily enough on matters, which obviously would play havoc with profits unless regulated, hence they combine to allow the people so much and no more, but they do not combine in any such agreement as to refrain from charging any higher rate than a certain specified maximum. That merely indicates the motive of combination. Let no man think upon reading this that I am divulging confidential information, and in order to prove this, I shall quote from Mr. Eckardt's work, "The National Banking System."—"*They agree* to pay a uniform rate upon deposits; but the man who argued from that that there was no competition for deposits would be entirely wrong in his conclusion." I have no desire to reach such a conclusion as Mr.

Eckardt denies; there is, as I have said, keen competition aided and abetted by each head office, so keen in fact, as to lead to accusations of unfairness against competitors. Did anyone ever see two managers of competing banks quarrel with one another to obtain a borrowing account? If such a combination is not one which could be called in restraint of trade then we had better not undertake to bother with any so called trust. It is unthinkable that a small group of interests could so effectively control our financial system that interest rates are fixed by them. It is inexcusable on the part of the bankers that during high interest periods they kept the savings bank depositor from receiving more than 3%, which has been the rate for over twenty years. During the war, interest rates soared and banks made huge profits. Until very recently call loan rates in Montreal were not increased but there is a disposition on the part of the banks for several reasons which I shall not mention not to increase the rate on call loans in Montreal. They did however, take advantage of the high rates obtaining in New York. Interest rates to borrowers should have been increased in Canada. It is not at all to the credit of our bankers that they were able to maintain comparatively low interest rates

during the war. They did it by withholding from the small or average savings customer, that which was due. Money was earning high rates all over the world but yet in Canada our depositors had to be content with three per cent. The deposit rate should have been increased and borrowers who were making huge profits would gladly have paid the increased lending rates.

When the formation of the Commonwealth Bank was being planned, I was requested to call upon a well known Toronto manufacturer, not on the Board of any Bank or Trust Company and whose position financially and every other way would have made him an ideal directing executive. After presenting my argument on the subject, I was pleased to find him taking a lively interest in the proposal. After a considerable time spent in a discussion of Canadian banking he said to me, "Do you realize, that nowhere in the world was money as cheap as in Canada during the war, that our banks were able to supply our needs without increasing the rate?" I came back at him with this question. "Who benefited by it?" He said, "Why those who borrowed of course, manufacturers and merchants." "Quite so," I said, "And do you think that accomplishment is any credit to the

Canadian Banker? Is it fair that by joint agreement they prevented the working man, the professional man, the average man from getting the full earning power of his money in order that affiliated manufacturing interests could get their money as cheaply as they did? Those who you say borrowed and benefited were by no means entitled to benefit at the expense of the masses, and it becomes more objectionable when one reflects on the huge profits made and the attempt to evade excess profit tax thereon." I asked him to name one commodity, which had remained at the same price year in and year out for twenty years. He finally admitted that he believed his viewpoint had been largely that of the manufacturer and that he thought most of them could have stood an increase of rate.

During the period of money scarcity and Government borrowing, why did not the banks do as one would in any other line of business? If they wanted money, they could have increased the rate to 3½% or perhaps 4% and at once money would emerge from trunks, teapots and stockings. The difference in rate is not great but no matter what it is, money is bound to be attracted by such an upward movement. On the other hand if borrowers had been compelled to pay higher rates, 8% instead of 6 and

6½% there would undoubtedly have been a shrinkage of loans particularly those of a non-essential nature. If customers were using borrowing privileges too freely, make it less profitable to borrow and each customer would be trying to do with a little less. These common sense practices were not put into effect, because undoubtedly they feared they might have trouble getting the savings rate down again or else they regarded a 3% rate as fixed by divine ordinance.

CHAPTER X.

WINDOW DRESSING—AND PROPAGANDA.

IN VIEW of the fact that the Government publishes monthly, a bank statement, it cannot be said that the public is not given an opportunity to ascertain the true position of each bank,—eliminating of course, the question of value of assets. The average man passes it up as too intricate for him to analyze, with its twenty-five columns wide and filled with figures set opposite each of eighteen banks. Assuming these statements to be correct, it must follow that some banks issue statements to the public which are not correct. This may seem to be an unwarranted assertion, unbelievable, and yet it is quite capable of proof by comparing the figures published by the Government, which few read with the carefully prepared literature intended for shareholders and public consumption.

The Bank of Montreal had excess circulation on April 30th, 1921, amounting to $13,000,000, yet they do not show in their published annual statement any liability to the Government, which must have existed under the method used to obtain this circulation.

The Bank of Nova Scotia showed excess circulation on December 31st, of $11,300,000. They had their deposit in Central Gold Reserve of $12,750,000 yet nowhere can we find mention in their published balance sheet of any amount due the Government.

The Bank of Toronto showed excess of $3,-497,000—with no mention of money due Government.

The Molsons Bank had excess notes of $1,-909,563 but they did show their obligations to Dominion Government as $7,272,141. This bank showed current loans equivalent to 89% of deposits.

La Banque Nationale had over $4,000,000 excess over a capital of $2,000,000 but it showed due the Government $6,649,813.57.

The Merchants Bank had excess notes but nothing shown as due the Government.

The Provincial Bank had a slight excess and showed an amount due the Government.

The Union Bank had $4,673,000 excess and showed nothing due the Government.

The Canadian Bank of Commerce showed excess notes of over $15,000,000—with Gold in Central Reserve $6,500,000 and Dominion notes there also $10,000,000 but nowhere do we see a liability to the Government.

The Royal Bank had issued, according to their statement, over $20,000,000 in excess of their paid up capital. They had $23,000,000 in Central Gold Reserve. They showed their liability to the Government as over $19,000,000.

The Dominion Bank showed their liability to the Government as considerably more than the excess circulation.

The Bank of Hamilton showed no liability to the Government but their excess note circulation was less than $1,000,000.

The Standard Bank of Canada showed due the Dominion Government $4,494,000. Its excess circulation was $2,300,000.

Banque d'Hochelaga had over $3,000,000 excess circulation but they showed a debt due the Government.

Imperial Bank had excess circulation $5,470,-000 and showed nothing as due the Government.

The Home Bank's issue did not exceed its paid up capital.

The Sterling Bank's issue did not exceed its paid up capital.

The Weyburn Security Bank issue was within the limit of paid up capital.

The amounts due the Dominion Government are evidently included by some banks with deposits. Depositors are of course, creditors but

of a very different status from a creditor who has made the bank a loan against securities. If you were to place on deposit with a chartered bank, $1,000,000 you would not expect the bank to hand you Victory Bonds to secure the deposit. It they were to do so, you would be especially favoured and upon liquidation your claim would be paid, since you could realize on the security they lodged with you. The bank could not correctly include you with other depositors when they gave the other depositors and the public a statement of their affairs. Your claim would represent a secured loan and should so appear in their statement. Furthermore, it should not merely state that the amount is due you, but they should also explain that the item is secured, and how secured.

By adding Government account to deposits, the latter are, of course, made to appear as being larger than they actually are, and there appears to be a wider margin between loans and deposits. Such statements are issued under the signature of eminent chartered accountants, which lead one to recall the controversy that was waged some years ago relative to the merits of external inspection. Section 54 of the Act outlines a number of headings to be given in the annual report to shareholders, but it does not

refer to "amounts due the Dominion Government." It does say in the opening sentence, "The statement shall without restricting the generality of the requirement of the next preceding sub-section, include and show, etc. etc."

The next preceding sub-section reads: "Any other or further particulars than those called for by sub-section 2 of this section, which, in the opinion of the directors, are necessary to a full and clear statement of the affairs of the bank shall also be included and shown in such statement." If directors do not regard the placing of a lien upon securities to obtain a loan as sufficient warrant for the additional information, then, the Act should be amended to give Directors less opportunity for the exercise of their opinions.

The object of reference to this subject is not merely to seize an opportunity to criticize but rather to show that there is a disposition to give these phases of our banking system the least possible publicity. Each bank wishes to issue an annual statement that will be indicative of great strength, large reserves, growth in deposits and so on. Accuracy of the information is deemed secondary, however, to the main purpose of keeping up appearances. Concealment of amounts due the Government is not the only

artifice resorted to at the end of the year to keep up with the Joneses. Anyone who makes a study of bank reports may readily discern a stronger position in the annual statement than is disclosed by the monthly report to the Government. This is frequently referred to as window dressing. What is it when a customer of a bank bolsters his position? It is padding. If a customer were to conceal a mortgage or a bill of sale, or some privileged claim, what would happen? He would be accused of rendering a false statement. He would be hastily summoned to appear before the Manager, there to be told of his sins of omission and commission. The heinous nature of his offence would be duly impressed upon him and higher standards of ethics in business would be defined as a requisite to a continued business relationship with the bank. This was pointed out by the writer a few weeks ago to one of the officials of a bank. His answer was that it would not be in the public interest to publish the facts. Here again we have the same conceit that what is good for the banks must be good for the country. What right have the banks to say what they shall do and what they shall not do in the public interest, or that if they see fit, they may with perfect impunity issue false statements. The

proceedings at the Annual Meetings of our banks are given great prominence and the opinions of the executives become commercial gospel even they may be quite out of harmony with what was said the year before, or contradict what some other banker said at his annual meeting. The rise in note circulation may be casually mentioned among other indications of increasing activity and shareholders may congratulate themselves, but why not tell them that their securities were mortgaged for the privilege of extra note issue, and that it would be preferable to issue more capital even if it decreased to some extent, the relative ratio of earnings.

The published reports of these annual pilgrimages to the shrines of the system have established such an idolatrous belief in and admiration for it, that it has become impervious to criticism.

The case of a recently published statement and a sage eulogy by a financial writer to the Montreal *Herald* signing himself "Observator," is a fair illustration of the drivel the public are expected to swallow.

"I find that the amount of immediately available assets on the 30th September, 1921, was $30,572,332, and the total liabilities $72,274,214. This shows a safe liquid position has been main-

tained when present unsettled business conditions are taken into account."

He does not explain that some of the immediately available assets are hypothecated to the Government to secure a loan of over $7,000,000.

"The total deposits of $57,882,968 exceed the call and time loans of $53,782,673 by $4,100,295 showing that the bank is using conservative methods in its loaning policy."

It is not my object to show the wisdom or otherwise of the bank's policy, but the fact that the bank has in loans 92% of its deposits is no indication whatever of conservatism. Such talk is nonsense.

"Comparing the percentage of cash holdings to deposits, I find that the former are equal to about 12% of the bank's liability to the public, another evidence of the bank's strong position."

Note that he starts to compare cash to deposits but states that it is equal to 12% of the bank's liabilities to the public. Deposits amount to $57,000,000.

He did not explain that to get this cash and maintain reasonable cash reserves, it became necessary after lending 92% of its deposits and investing 75% of its capital in Bank Premises to borrow from the Government. He might

have said that the bank had exerted itself to satisfy the urgent need for business capital and that it showed no loans on call in New York.

He might have said also at the risk of losing his job, that this statement is a splendid illustration of overtrading and that more banking capital is required in Canada.

People have become so used to this propaganda, so used to the existence of a gigantic monopoly, that they seemingly have ceased to care or else the possibilities of greater, more efficient banking facilities have not been brought home to them. It is time that those who have capital and who wish to see a thriving, hustling Canada should make up their minds that the business of banking is not one which should be kept in the hands of a few, and that more banking facilities shall be provided in spite of all opposition.

CHAPTER XI.

THE BANKS IN A CRISIS.

IT IS a frequent boast that Canada's banks have always proven themselves able to weather creditably every financial storm. Is it after all a record to be proud of if our metaphorical ship remained always in safe harbours? Of what benefit is a splendid life saving patrol service if upon the first approach of a storm it runs to cover, and leaves the large merchant fleet to ride out the storm, founder, or go ashore as fate may decide? This simile is not in detail and in broad application a strictly true one, as the banks are not expected to save every wreck nor endanger their own existence to avert wrecks, but if we speak of financial storms and refer to the banks as weathering these storms it is fair to enquire to what extent the banks have been exposed to these storms?

It should be remembered that it has already been shown how the banks have weakened their position by overtrading and we may therefore expect that they will show even less inclination to develop new business when a new era of prosperity comes. The banks will again be called

upon to expand loans and to increase circulation. It is beyond question that these so-called war measures to increase circulating medium must again be used in peace prosperity and the banks must again put a lien on securities, thereby weakening their position. Under such circumstances is it possible for the banks to be as courageous in the matter of expansion? As the demand for loans increases, legitimate applications for loans will be met with an attitude of unwillingness to lend. Borrowers who have experienced this attitude may well imagine being told, "You must not increase your loans at this time. You should not borrow and you must curtail as there is an abnormal demand for money. There is too much speculation. You must go very carefully and limit your buying." When the result of curtailment comes in the form of business inactivity, we then hear the following: "This is no time to borrow. Prices are falling. The bottom is dropping out of everything. Wait until after the tide turns. We are calling our loans." The banks therefore, restrict legitimate business on an upward market allowing much of their funds to go into speculative channels and by calling loans contribute to depression, and again restrict legitimate business. When the tide turns those who

are on the inside will once more receive the benefit of their connection and control in the form of loans for new speculations, mergers, promotions, pulp and sugar plantations or southern railways.

There is of course, a time when a bank cannot lend. It cannot lend beyond a safe percentage of the amount which others have entrusted to its care, but the banks lack because of insufficient capitalization the ability to create and foster new business. Under capitalization is not a misfortune but as a matter of fact a crime against natural laws. With very little effort the banks could have had $200,000,000 more capital than they now have. For selfish reasons they did not increase their capital and for equally selfish reasons they wish to maintain control of the situation.

If one could invite each business house in Canada to recite its experiences and could the replies be published, there would be disclosed an astonishing condition. We have all heard frequently of cases of refusal of loans, which were obviously unwarranted. There have been liquidations during the past year which could have been avoided by the exercise of a little patience and confidence.

A case which exemplifies the methods of our

banks recently came to my notice, the information being furnished by outside sources, but the history and financial position of one of the firms has been known to me for several years. A firm, which we shall designate as C did business with Bank S, another firm E did business with Bank D, another firm H did business with Bank M. All three firms were engaged in the same line of business, a basic industry, producing a food product. A recession of prices and certain other conditions, brought about a feeling of insecurity on the part of the banks. Now each of these three firms might be classed as intermediate and competing with the big interests. Almost simultaneously the three banks brought pressure on the three firms. One managed to satisfy a demand for payment and one was forced into liquidation. The bank stepped in and commenced to realize on its securities. It is said that despite a drop in price to almost one third of war time values, the bank has collected its account and will have possibly $35,000 to hand back to the owners of the property, and in addition to this favourable liquidation the property itself appraised by a well known appraisal company at $400,000 was sold to a new company for $225,000 in securities of the new promotion. A prospectus of the new company shows the

same bank as bankers of the new company, indicating their confidence in the satisfactory outcome of the venture. With securities already issued amounting to $350,000 there is shown a surplus of $50,000 with nothing whatever included in assets to represent trade marks or the good will of a business which had been in existence a generation. Practically no new money, or at least not more than $6,000 or $7,000 had been put into the business. It is interesting to note also that the new company selected the old management. The question may properly be asked: Wherein did this drastic policy of the bank improve the position of affairs? The bank's debt has been liquidated without recourse to the bond mortgage. The people who built up the business have been frozen out and compelled to accept securities to represent a depreciated value of the result of their years of toil, and accumulation. If the assets taken over by the bank did as is said, pay in full the bank's debt, why could not the same liquidation have been accomplished without any change of ownership of the plant?

A very strange part of this story is the statement that one of the big interests, a competitor whose desire would be to eliminate the intermediate man, did about the same time have in

store a large amount of raw material on which there was likely to be some loss. The big operator at once sold short on the market and to such a huge extent that his profits on a heavy fall entirely offset his inventory loss.

Another case is one of a manufacturer as yet in a small way, but making an article destined to have a wide distribution and controlled by valuable patent. His bank loans, under $5,000, were not favourably regarded by his bankers despite the fact that he had more than the equivalent in commercial paper and had liquid assets 50% greater than his current liabilities. The bank insisted upon a reduction. In the very nature of things reduction meant curtailment of operations, but fortunately he had an outside source to rely upon. The bank still insisted upon further reduction and though the manufacturer is entitled to five times as much credit, his way is made about as hard as it is possible to make it. He has and still can find ready market for his product but is handicapped by the attitude of his bankers. Some business associates of his also encountered some financial difficulty and in adjusting certain transactions it was found convenient to use the manufacturer's personal note, which was made payable at the other party's bank. It was accepted for dis-

count but the bank at once called up the manufacturer's bankers asking their opinion as to whether or not the note would be likely to be paid at maturity. The manufacturer's banker asked him for an explanation of the note and made the incident the occasion for another demand for a reduction of his account. The bank at which the note was discounted had no legal right to disclose its customers business to the manufacturer's banker, and by doing so it created a distrust, which would have been avoided had the manufacturer been permitted to inform his own banker in the ordinary and due course. This is a sample of the methods of our Financial Inquisition.

It is possible to cite a great many cases to show that at the very time the bank should cooperate with customers to avert disaster is the time they actually withdraw their support and as a matter of fact the bank is the instrument which precipitates the trouble. The banks will not return to an active and confident support of industry until prosperity demands it, and prosperity must come slowly without the assistance of the banks. Here we have another of those vicious circles in economic discussions,—such as the one, which is involved in high prices and high wages.

There is of course, no warrant for a bank making advances to a concern merely to have it pile up goods for which there is no market, but falling off of consumption is not at present entirely responsible for inactivity, and much of the existing lack of demand is the result of the withdrawal of buying power. Let us assume that the bank makes an advance of $300,000 to a manufacturer to purchase raw materials and labour, we shall say in the proportion of two thirds and one third respectively. The $200,000 also represents the product of labour and raw materials and when paid over is subject to a distribution shared in by labour. Some other industry thrives on the orders received and workmen in each line of endeavour, are paid the major portion of the $300,000. Their purchasing power is correspondingly increased, and in satisfaction of their needs, wants or human desires the money goes to other industries producing the articles so desired. Other industries receive a share in the distribution and add to the wage earners share as the demand increases. The borrower of the $300,000 has now goods equivalent value for sale. Three hundred customers purchase these goods borrowing $1,000 each from their bankers and the first loan is paid, and ultimately the goods are purchased

by the consumer, who is able to pay because of the wages he received to produce these and other goods. Let the lender however, keep his money or rather let him arbitrarily restrain the free action of the credit he controls and industry remains stagnant, the worker loses his purchasing power, he consumes even less of the necessaries of life, his home becomes cold and barren, his children go hungry and he must remain in this condition until the fear and cowardice in the minds of bankers and financiers gives place to confidence. Labour may offer itself so cheaply in order to satisfy a hungry stomach that credit will be enticed from its fortified position. The lure of cheap production will in due course overcome blue ruin theories and once more we may produce, we may live and let live. But why in Heaven's name should we wait until industry is completely stagnated, until all labour is in the bread line and ready to accept a condition of mediæval slavery for a bite to eat. Where has disappeared all the hypocritical clap trap as to labour's share in the direction of industry? Those who advocated it never believed it. Any man who said, "I think now that my labourers should have a voice in the management of my business," knew that he did not believe one word he said. It bridged over a

difficulty but now they have labour and high wage agitators and strikers on the run.

This is one of the greatest economic crimes of a century. We have an unjustifiable, wantonly criminal, (for either ignorance or intent is criminal), violation of economic laws. Freedom is in all human conditions, the idealistic state. Ability to follow natural laws is to put it cryptically natural. Interference with natural laws is unnatural. There is frequently a necessity for regulation but all laws and regulation of laws is assumed to be for the happiness and well being of the governed. Interference must pass this test. A natural law inflicting natural punishment for excesses is compensating in its action. If outside and artificial influences add their particular torture devices the result is not one that makes for the happiness and well being of those who are subject to these laws. Artificial regulation may ameliorate the uncomfortable effects of the law of compensation, but if we add to or hasten the compensating action, we violate other laws, in this case the law of supply and demand.

Nothing can be more obvious to those who study the question, than that our bankers and financiers, through timidity and lack of foresight, thoughtlessly or perhaps with a view

to regulate prices of both commodities and labour, did individually and concertedly, withdraw money and credit when it was most urgently needed to stem the ebb tide that followed an abnormal flow of business enterprise, endeavour and speculation. For the deplorable condition in which Canada is to-day our banks are primarily responsible and it would appear that they are unwilling to permit any other interests to contribute to the work of recovery.

CHAPTER XII.

THE PROPOSED COMMONWEALTH BANK.

NO THOUGHT of offending the powers that be should deter anyone from giving to the public, any facts which the public should know. Our legislative bodies were not elected or appointed to further the interests of any group of individuals or corporations. Private individuals seeking legislation not in the public interests must expect, and should receive close scrutiny. When the objective is something that is in the public interest and the attitude of the Government is antagonistic, then every detail of the story should be given to the public. If there is doubt as to the matter of public interest, public opinion which is the better judge, should be given every opportunity for expression. There is one feature of this particular case however, regarding which there can be no room for argument, and which is that chicanery, deceit and trickery is never in the public interest, no matter what is to be accomplished by it.

Having long had in mind a plan to found a bank which would be more democratic in character, than the existing institutions, and

more truly national, if you will, I placed my scheme before Mr. John Jacob Arnold, whom I had met several months previously, and whose antecedents were such as to inspire confidence in his character and ability as a banker. The scheme appealed to Mr. Arnold, and I suggested that he should join me in promoting a bank and interest American capital. The first proposal was one which originated from a suggestion that an existing institution could be purchased, but so many difficulties were anticipated in the way of eliminating the management and acquiring control that we concluded it would be better in the long run, to start with a new charter. Mr. Arnold made several trips to Toronto to discuss future plans, and we were pleased to have his assurance that certain interests in the United States would furnish a substantial amount of capital. The alleged willingness of the Bank to sell was not by any means an alluring prospect, so it was decided to ask Parliament for a charter. Nothing definite was done however, until our solicitor, whose power politically is regarded as almost supreme and who had already intimated he could produce the charter, had interviewed Sir Henry Drayton, Minister of Finance, as to the attitude of the Government toward such an application. We

were told, and this information was again given to a meeting of those interested, at the King Edward Hotel, Toronto, that Sir Henry had definitely assured the granting of the charter. At this gathering which was in the nature of an organization meeting, there were fourteen persons present, all but one being extremely enthusiastic over the new project. There was one supporter absent from the luncheon table, so doubtless our obstructionist was the thirteenth, and responsible for some of the unfortunate delays which we encountered in preparing our charter for Ottawa.

While our plans were being formulated, one of our associates proposed that we combine forces with the Great West Bank promotors. Those most deeply interested in our scheme met the man who had secured control of the Great West Bank Charter, and we were led to disclose our hand, being assured of approval and co-operation, but at a subsequent meeting we had become aware of certain happenings and developments which did not appeal to us as in harmony with our aims, and we concluded to go on with our plans to obtain our own charter as the Commonwealth Bank of Canada.

The possibility of opposition on the part of the Canadian Bankers' Association was not by

any means lost sight of, but Sir Henry Drayton is alleged to have declared in characteristically forcible language, more so than elegant, that opposition was out of the question, as he was Minister of Finance. We were told that he would be heartily in favour of a bank to be promoted by experienced bankers rather than by professional promotors. We received every assurance that could be given, that we would get our charter.

In order to handle the flotation of the Bank speedily and efficiently, a Securities corporation was formed, and planned with a view to launch the bank immediately the charter had been granted. Profit from the promotion was also, as might be expected, an object of the Securities Company, but this was not so alluring a prospect as might on first blush appear, when it is considered that the profit, after all expenses and commissions had been deducted, would have to be divided among fourteen individuals participating in the promotion. Clearly there was no opportunity for anyone involved, to become a millionaire. I mention this, as it will be recited later what one Senator said of the proposal as being a stock peddling scheme. It should be remembered also that the Bank Act allows nothing but advertising, stationery, travelling ex-

pense and such accounts to be paid from subscriptions. Subscribers must authorize by resolution, accounts for commissions, and if amount authorized is deemed insufficient, reference is made to any Superior or County Court Judge to determine the charges. This does not make Bank promotion a very alluring prospect for stock selling.

Investigation and negotiation by Mr. Arnold had meanwhile reached the point where he felt warranted in stating that the new Bank would immediately receive Two million dollars. The balance of the proposed issue of $10,000,000 was to be raised in Canada, by popular subscription.

The names of those applying for, incorporation as the Commonwealth Bank of Canada, were as follows:—C. Grant Anderson, a well-known lumberman of Toronto,—John Jacob Arnold, banker, then of Boston,—J. C. Lamothe, of Lamothe, Gadbois and Nantel, one of the leading firms of barristers in Montreal,—W. H. Gibson, of Newcastle, Ontario, one of the largest and most widely known fruit growers in the Province. The writer also was signatory to the application, not for the strength that would come of accumulation of wealth, but rather as indicative of their being banking knowledge and experience to supplement financial substance.

For reasons approved by our solicitor, the bill was introduced first in the Senate rather than in the Commons, and due to several delays in securing directors, it was rather late in the session when it made its appearance.

Within a few days after being sent to Ottawa, and arrangements had been made to have the bill introduced, by the Hon. Richard Blain, I went to Ottawa to watch its passage, and found that it had to be advertised in the Canada Gazette for five successive issues. We had received no word of the delay, but I learned that if we gave satisfactory assurance that the advertising would be continued the bill could be immediately introduced. I wired our solicitor to come to Ottawa, and he arranged for the bill to be introduced at once. After returning to Toronto, we again saw that the bill was being delayed, making another trip to Ottawa necessary. Those who were responsible for the passage of the bill, seemed to know the least about it. After persistent enquiry I learned that we had opposition to contend with and by following up every clue, I found that someone who had been concerning themselves unduly in our affairs, had spread the report that John Jacob Arnold was a pro-German, that the bank was being formed by

German Americans to foster German foreign trade, and other stories equally absurd.

Upon the suggestion of Hon. Mr. Blain, I interviewed Sir Henry Drayton, being told that if the Finance Department would consent, our bill would go through. There was no reason why I should have seen Sir Henry as we already had his assurance of support, unless it might be to deny the reports circulated about Mr. Arnold. I was treated by Sir Henry very much as though he had never heard tell of our bill, but lest anyone may think that I would take Sir Henry Drayton very seriously, I wish to draw a word picture of that interview. The reader's imagination will have to supply the character sketch of an individual whose general bearing was that of a counterfeit trying to pass as the real honest to goodness, only original financial scientist and not at all ignorant of the stupendous intellect required to deal with national finance. You must conceive of a man with an assumed aspect of seriousness, and who by an adroit "Yes, Yes"—"Quite correct" dexterously extricates himself from error in argument.

After a few random fool questions shot out in the patronising manner of a visiting school trustee, and which served no good purpose except to lead to admissions by him that the financial

situation was most unsatisfactory, he suddenly assumed a business like attitude and with pencil in hand, demanded the names of our directors. He wrote as the names were recited to him, but stopped abruptly upon mention of John Jacob Arnold. "Who is he?"—"Mr. Arnold is Vice President of the Bankers' Union, for Foreign Commerce and Finance." "Oh Yes," said he, "He is connected with that new hundred million dollar bank over in the States. That scheme won't go through." I interjected that he had nothing to do with that institution. "Oh Yes he has," was the reply and the institution, I am told, will never function," "I understand they have $20,000,000 subscribed, but that there is a string to it, requiring the total capital to be subscribed before it can be used." He insisted his information was from people who knew. I pointed out that Mr. Arnold's banking Company was capitalized at $15,000,000 of which less than $2,000,000 has been subscribed. Sir Henry persisted in his own viewpoint until I mentioned George Ed. Smith of the Royal Typewriter Company as one of the directors. "Well," said he, "Smith is a good man. He is a director is he? Then my information must be incorrect." The idea was simply that we had been attacked at our most vulnerable point.

Arnold was an American and associated with the H. V. Greene Company of Boston. It made no difference that his connection with the Greene Company could be explained as associated with Bankers' Union for which Greene Company were acting as fiscal agents. Evidently the word had gone forth, "Block the bill, and represent Arnold as an undesirable. Don't worry about details, tell anything that will make a good story."

I put it up to Sir Henry squarely and without any beating about the bush. "What is all this fuss about Arnold. He is merely one of the incorporators and if the Senate think he is a pro-German and this is likely to jeopardize our bill, I shall ask Arnold to retire from the Board and replace him by someone who shall be satisfactory." Then Sir Henry in great surprise and as though to avoid having me do anything unwise, said "No, no, no, no, why that would be foolish would it not? Don't you expect to get a lot of money through him?" His sudden disagreement with my suggestion was due possibly to his knowledge of Mr. Arnold's connections in Western Ontario, where he was born, and there are those both in and out of Parliament who might resent the charge of his being pro-German. That is one explanation. The only

other plausible one is that he feared we might remove the excuse for turning down the charter. In either case Sir Henry was not keeping faith with us in furtherance of his promise, repeated promises in fact. As a public servant he was not treating us fairly, as we were entitled to more consideration than we received. If Mr. Arnold was a bar, I knew that Mr. Arnold would retire and we were entitled to be told frankly, just where we stood instead of being bluffed and fooled and tricked throughout the whole performance. The Minister even stated to me that he knew the banks would welcome American capital as the question of inviting a large American Bank to come in here had been seriously considered. He was quick to add that English capital was also considered. Could inconsistency be more transparent? The absurdity is so very patent that further comment would be superfluous, particularly in view of what senators told me regarding the antipathy of the Government to having American capital invested in Canadian Banking.

Sir Henry vouchsafed the opinion that we should have several million dollars of stock actually subscribed before asking for a charter but I reminded him that we could not take subscriptions for a bank which did not exist, that

the Act provided for the opening of stock books after the charter is granted, and that the Act also provided him as Minister of Finance with every means to protect the public interest, as we would have to apply to the Treasury Board for a certificate to commence business, within one year from the date of the charter, and upon such application being made, the Treasury Board would see to it, that every requirement of the Act had been fulfilled. Section 15 of the Act reads:

"At the time of the application for the certificate, there shall be submitted to the Treasury Board, a sworn statement, setting forth the several sums of money paid in connection with the incorporation and organization of the Bank, and such statement shall in addition, include a list of all the unpaid liabilities, if any, in connection with or arising out of such incorporation and organization.

2. Prior to the time at which the certificate is given, no payments on account of incorporation and organization expenses shall be made out of the moneys paid in by subscribers, except reasonable sums for the payments of clerical assistance, legal services, office rental, advertising, stationery, postage and expenses of travel, if any.

3. No certificate shall be given by the Treasury Board until it has been shown to the satisfaction of the Board, by affidavit or otherwise, that all the requirements of this Act and of the special Act of Incorporation of the Bank as to the subscription to the capital stock, the payment of money by subscribers on account of their subscriptions, the payments required to be made to the Minister, the election of directors, deposit for security of note issue or other preliminaries, have been complied with, and that the sum so paid is then held by the Minister, and unless it appears to the Board that the expenses of incorporation and organization are reasonable."

There is no statutory authority for, nor no precedent for, nor no common sense in Sir Henry's suggestion to obtain subscriptions to the extent of several million dollars, before asking for a charter.

What a vain, purposeless, unreasonable and inconsistent interview to stand at the credit of the Minister of Finance of Canada?

In due course when every formality had been complied with and the advertising had been done as required, the bill received its first and second readings. There was, of course, no indecent haste about it. It was referred to the

Senate Committee on Banking and Finance. Meanwhile the Session had been drawing nearer to a close and we feared we could not get it through in time to be taken up by the Commons. Our friends advised us that it was purposely being held back.

Our solicitor and Mr. Lamothe both went to Ottawa to attend the Committee. We were advised that we had better drum up a quorum so we set about canvassing supporters for our bill. On the evening before the Committee met, a friend in the Senate, secured for me the promises of five members of the Committee to be present in our interests. Not one of those five put in an appearance. Others who had made similar promises rushed in after the motion to adjourn had been recorded.

To show how well and thoroughly the poison had been spread, I shall recite just one experience met in soliciting the support of the individual members. Our solicitor and I went together to see Senator T. "No, sir, I'll tell you right now Gentlemen, I shall oppose your bill. I shall not support a bill to incorporate a bunch of American crooks."

A few minutes before the hour of meeting, there was some exciting conversation in the corridor. Mr. Lamothe came to me with the in-

formation that we would ourselves have to ask for an adjournment or the bill would be killed, that the Finance Department had some disquieting reports on John Jacob Arnold. I was not in favour of adjournment, as I thought that if reason and explanation could not then satisfy, it never would. It was suggested that we would have an opportunity to bring Mr. Arnold before the Committee. There was not a moment to discuss the matter. To those who have never seen the steam-roller in operation the modus operandi may be interesting.

The members present took their seats. The Chairman said briskly, "Is there a quorum here? One! Two! Three! Four! Five! Six! Seven! Eight!—No. Are we to go on with the business?" The Secretary rushed out but immediately returned with a member whom he captured just outside the door. "Nine" said the Chairman. He announced the business as an Act to incorporate the Commonwealth Bank of Canada. "What is your pleasure?" Without any lost motion, one Senator moved "At the request of the promotors of the bill, I move adjournment until next Thursday." It was seconded with as much speed as moved, the motion put, and declared carried before any of us knew what was happening. The speed was

like that of a Lewis Machine Gun. The Committee then sat back indifferently to hear our solicitor. He might just as well have talked to the oil paintings in the corridor.

Immediately the meeting adjourned it was decided to interview the Chairman who by the way is a Director of the Canadian Bank of Commerce. He was engaged. While waiting, there emerged from his room a member of the Committee who is a Director of the Royal Bank of Canada, and in a few moments there arrived to seek audience with the Chairman, the Senator who so strongly urged upon us, adjournment, and who made the motion as he put it "at the request of the promotors."

After waiting until the period of adjournment had nearly expired, we discovered that the date of meeting had been fixed on a holiday, and were told we would have to wait another week, in fact they did not know when another meeting would be called. It was up to the Chairman. He was in Montreal. After several long distance messages and telegrams, the clerk finally received definite instructions to call the meeting, although some hours before, we had been told the instructions had been issued, and the clerk denied all knowledge of such instructions. He said, "Only dynamite or the Chairman would

move him." Senator Blain received a letter from the Chairman and said that he had told the clerk to call the meeting, but the Senator evidently did not fulfill either of the requisites for motion mentioned.

Meanwhile I had been in communication with Mr. Arnold's office in New York, and found that Mr. Arnold was in the hospital undergoing an operation. As I could not produce him, I requested that testimonials as to his character and ability be sent me by wire direct from bankers and others.

The adjourned date conflicted with a prior engagement which our solicitor had in Winnipeg, but before leaving Ottawa, he again took the matter up with Sir Henry Drayton. We were not as a result, as certain of Sir Henry's active support as we had been when we undertook the promotion but we were definitely assured that he was neutral and that there was positively no opposition originating in his department. It was with him a case of "Go ahead and get your charter, I shall not oppose it, but I shall give you a close inspection when you come to me for your certificate."

On the occasion of another interview with Sir Henry Drayton, we referred to the confidential reports which we were told had been given the

Finance Department, and that we had been told by those in the Senate to overcome the opposition of the Finance Department and we would have no trouble. It had been definitely stated to us by one of the leading senators that the Government had sent over word to block the bill. When confronted with all of this, the Minister stated positively and emphatically. "There are no confidential reports. There is no opposition on the part of the Finance Department. The Finance Department are not interested." When told that Senator —— stated definitely there were reports, the Minister said "The only report is what I told Senator ——. I heard these things regarding Arnold's connections, and felt it my duty to tell him." This statement would appear to be an admission that the Government opposition started with him, and we had the assurance of a Senator that a request had been made by the Department, to stall the bill. Who then prevailed upon Sir Henry Drayton to break his promise that he would see to it we were granted a charter? It need not tax the reader's powers of imagination to arrive at the correct answer.

During the few days prior to the meeting of the Committee it became increasingly apparent that there was violent opposition to the bill. We kept in close touch with the situation and

had the assistance of several senators and members. Mr. C. G. Anderson, Mr. J. C. Lamothe, and the writer were at Ottawa. Two others were assisting us, one of whom had been at Ottawa for several weeks, but who for obvious reasons had no open intercourse with us, but being a supposedly disinterested party we were regularly supplied with corridor gossip. It might be of interest to three prominent men to know that their conversation in the Chateau Laurier regarding the bill, was overheard.

On another occasion a Senator whom I have known for a number of years enquired with interest as to our bill. I told him we had strong opposition and would likely fail. He said, "Here comes Senator —— I'll ask him." In answer to the enquiry, "What about that bank bill?" The Senator said, "It won't go through." On being asked why, he said, as if it were a most natural reason, "American capital.' I interjected, "Surely the Senators are not opposed to having American capital come into Canada?" "No," he said, "But this is different." "Why different, do not our banks wish to have American Capital?" "Yes," he answered, "but not to control the bank." In spite of all we could say or do this absolutely false, and maliciously false statement was kept circulating in Ottawa.

Who would be responsible for the circulation of such propaganda other than those to whose interest it was to block the passage of the bill?

The adjourned meeting was well attended. There was no fear of not having a quorum. There were two bills to discuss. One to extend the charter of the Great West Bank, and the other to incorporate the Commonwealth Bank of Canada. There were some perfunctory questions asked as to why the Great West Bank had not done anything since their charter had been granted a year previously, and there was some apparent opposition to the extension proposal. A suggestion was made to give them six months, another suggested the charter should expire at the end of the year, but after a few moments discussion, the bill was passed. Some criticism was made of bank promotions which was probably intended for us, and the whole proceeding had the appearance of being a side show, just a preliminary feint preceding the main encounter.

Mr. Lamothe made a very able presentation of our proposal, but one could see that our case was pre-judged. The reason for the absence of our solicitor and Mr. Arnold was explained, and the following telegrams were read:

NEW YORK, May 17th, 1921.

W. L. BAKER,

Chateau Laurier, Ottawa, Ont.,

I commend to your courtesies my highly esteemed friend of many years standing, Mr. John Jacob Arnold, formerly a Vice President of the First National Bank, Chicago, and the Bank of Italy, San Francisco. Mr. Arnold is a gentleman of long and varied banking experience, fine personality, the highest integrity, the best antecedents, and the positions he has occupied in banking and public affairs speak for his qualifications. He has a legion of friends, one of whom I am happy to subscribe myself.

Signed B. D. HARRIS,
Vice Pres., National City Bank.

(The above telegram was signed officially.)

NEW YORK, May 17th, 1921.

W. L. BAKER,

Chateau Laurier, Ottawa, Ont.,

Regarding reference John J. Arnold of this City Mr. Arnold was Vice President, First National Bank, Chicago, when I first met him. We served on a committee of the National Chamber of Commerce in nineteen eighteen. Believe him well connected, and regard him highly.

Signed, FRANK E. EWING.

(Mr. Ewing is President of Dennison Company.)

NEW YORK, May 17th, 1921.

W. L. BAKER,

Chateau Laurier, Ottawa, Ont.,

Referring to John J. Arnold's integrity and status in business, have known him for thirty years. Have had ample and frequent opportunity to test him on points of integrity and ethics in business and otherwise. Know his personal record to be of the very best. Many and large responsibilities in the banking world as Vice President of the First National Bank of Chicago, also the United States Chamber of Commerce, and other associations have won for him unusual honours and great confidence, which have not been violated or abused. Arnold was unfortunately advised to make a business connection to save a situation for others but when he discovered the real connection withdrew. His story of the matter deserves consideration and merits full faith in him.

W. G. VANSCHMUS.

(Mr. Vanschmus is General Manager of Geo. M. Dyer and Co., one of the largest advertising agencies in America.)

BROOKLINE, Mass., May 17th, 1921.

W. L. BAKER,

Chateau Laurier, Ottawa, Ont.,

I understand John Jacob Arnold is criticized in connection with Bankers' Union and Greene Company. Have known Arnold many years and believe in his integrity and honesty. Believe he entered these Companies on

assurance of men of standing in whom he had reason for confidence, and withdrew when he found he could not enforce conservative standard of management.

Signed JOHN S. FAHEY.

(Mr. Fahey is, or was then, the President of the Chamber of Commerce of the United States of America.)

NEW YORK, 18th May, 1921.

W. L. BAKER,

Chateau Laurier, Ottawa, Ont.,

Reply your enquiry. Regard J. J. Arnold very highly as business executive. Intimate association with him when living in Chicago warrants my conclusion. Mr. Arnold entitled your entire confidence. This without liability.

Signed W. T. PERKINS,
Vice President The Chatham and Phoenix National Bank.

(This telegram was signed officially.)

I have been led to believe that these telegrams coming from some of the leading institutions of America, and speaking in such high terms of the man who had been represented to them as a decidedly undesirable element to introduce into Canadian Banking, rather disconcerted the Committee, and quite naturally it would cause uneasiness to any who had passed the misinfor-

mation along. At any rate, they informed us of a decision to consider the bill in private, but not until the Chairman had made light of the telegrams. He intimated that such telegrams as came from the National City Bank carried no weight, as "those American Banks sometimes have thirteen or fourteen Vice-Presidents." What a brilliant remark! To waste words in proving the fatuity of such talk would not be at all complimentary to the reader's intelligence.

Another highly intelligent piece of reasoning was contained in the remarks of a Senator which ran something as follows: "Mr. Baker says that there would be a substantial amount of American money come into this Bank. Now we do not approve of such a thing. The adverse rate of exchange against Canada in dealings with the United States is a very serious matter and here these Gentlemen propose to make it worse." Think of it! It is rather ungenerous, cruel and perhaps unfair to expose such a silly blunder, but it is important that the people should know that wisdom and experience are not responsible always for the acts of our legislators.

Senator Foster, the Chairman, was speaking with me after the Committee had turned our bill down, and from his bountiful store of knowledge of promotion, very kindly endeavoured

to contribute to my education certain elementary principles which he promised would ensure success. I distinctly remember a reference to my youth, followed shortly thereafter by an invitation to return to Ottawa in the Fall, and I would get the charter, provided his recommendations were carried out, which were in effect to found the bank first, and ask for a charter afterwards, a repetition of Sir Henry's view and not at all in harmony with the Act. During the six or eight months between sessions, the Senator evidently expected I would overcome the objection of youthful years. Had I been told about it earlier, I might have remedied it, but they seemed to discover this weakness only after they had heard the telegrams about their bug-a-boo Arnold. That I have since added to my experience may go without saying, that I have supplemented my knowledge of banking conditions is due to the advice so thoughtfully given, but I fear that the indictment for youth could be little amended, unless it were granted that the experience gained, outweighed what was lacking in years. One of England's greatest statesmen, Chatham, is alleged to have spoken once as follows, when charged with the inexperience of youth: "The atrocious crime of being a young man, which

the honourable gentleman has, with such decency charged upon me, I shall neither attempt to palliate nor deny, but content myself with wishing that I may be one of those whose follies may cease with their youth, and not of that number who are ignorant in spite of experience."

It was also remarked by Senator Foster, that we should not have our Directorate "scattered all over the country, one in Boston, another in Montreal, another in Newcastle, and two in Toronto." We did go to Ottawa with only five provisional directors, complying with the Act, and intending to complete the board when the charter had been granted, but let us see how nearly the distribution of our partial directorate corresponded with that bank directorate which is honoured by the name of our critic. He is a Director of the board of the Canadian Bank of Commerce, which on December 30th, 1920, reported a directorate of twenty five members, with domiciles as follows: Eleven in Toronto, Four in Montreal, one in Ottawa, one in Hamilton, one in Chicago, two in Winnipeg, two in New York, one in Victoria, one in Halifax and one in Kingston. Fourteen twenty-fifths resident outside of Toronto. Three fifths of our partial board those who had agreed to become

provisional directors were resident outside of Toronto.

A natural reply to this comparison is that it overlooks the fact that there are eleven directors in Toronto to look after the interests of the bank, and that a substantial number of directors is necessary at the chief place of business. There is one outstanding exception to this, and such remarkable progress has that institution made that one might fairly suggest that if domicile of directors is a factor, it would be an evidence of the reverse of Senator Foster's reasoning, and that an institution might be as well off if directors could be kept away from its Head Office. I am not suggesting anything so unkind as banishment, but since such a specious theory was advanced, the absurdity of it can best be shown by concrete application and it is unfortunate if there are facts which could be interpreted as belittling the importance of a bank director's functions. Of course when once a bank has become established, it may have its own reasons for pitchforking certain individuals into its directorate, and by virtue of general prominence or high office, they may serve the bank as well and possibly better than local directors. For instance should anyone conceive of a trespass on sacred rights and privileges a

director might find himself in the position of being both an advocate for the party trespassed upon, as well as a member of the judicial body appointed to pass judgment on the transgressor. Certainly no such reputable gentlemen would take advantage of their dual position, but nevertheless they may be blinded by prejudice. It is not in harmony with the principles of British justice and fair play that an application for permission to enter into any business should be left in the hands of a Committee, a number of whom are in the same line of business.

Reference has been made to an institution which might be cited as a refutation of the argument for choosing directors whose domicile would enable them to direct. There are few financial institutions in Canada managed as efficiently and as scientifically as the Bank of Nova Scotia. It would be hard to find any better trained staff,—yet where are the directors? To all intents and purposes the Head Office is in Toronto, but styled the General Office. It is the Executive Office with General Manager, Assistant General Manager, Superintendent, Inspectors and the Bank's Secretary. Theoretically or legally we may say the Bank's Head Office is in Halifax but the Superintendent for the Maritime Pro-

vinces happens to have headquarters in St. John, New Brunswick. There are five directors in Halifax, two in St. John, one in Montreal, four in Ottawa, one in Fort Colougne, Quebec, one in North Bay, Ontario, one in Buckingham, Quebec, one in Renfrew, Ontario, one in New Glasgow, Nova Scotia, and only two in Toronto, where the chief executive offices are located,—two out of nineteen directors. The wonderful progress of the Bank of Nova Scotia and the splendid position it occupies to-day are clearly not due to the constant attention the Directors might give the Bank by virtue of their close proximity to the executive offices.

In all fairness to the intelligence of those who advanced such silly reasons for declining a charter, it might be stated as an explanation of this strange attitude that when they found such a rumpus stirred up as a result of the propaganda against Arnold, they seized on anything at all which would furnish an excuse for carrying out the orders to block the bill, which I was told, were sent over to the Senate by the Government.

The Committee's report to the Senate, according to the Minutes of the Proceedings of the Senate of Canada, reads as follows:

"The Honourable Mr. Foster from the Standing Committee on Banking and Commerce, to whom was referred this Bill, (03) entitled "An Act to Incorporate the Commonwealth Bank of Canada" reported that they had gone through the said Bill, and had directed him to report the same to the Senate.

"The said Report was then received as follows:—

"That the preamble of this Bill has not been proven to their satisfaction; and that the ground on which they have arrived at their decision is that the incorporation of the Company proposed to be created by the Bill would not be in the public interest.

The said Report was adopted."

Let us examine the logic of the report. By preamble is meant the words of the bill as follows:—

"Whereas the persons hereinafter named have by their petition prayed that it be enacted as hereinafter set forth and it is expedient to grant the prayer of the said petition; Therefore His Majesty, etc., Being expedient to grant the prayer means that it would be wise or in the public interest to do so. Therefore, we may substitute in that portion of the Report, referring to preamble, another clause, which will make the meaning clearer, and instead of saying, "That the preamble of the bill has not been proven," we shall say, "That it has not been

proven to their satisfaction that the bill is in the public interest," and how does it read?

"That it has not been proven to their satisfaction that the bill is in the public interest; and that the ground on which they have arrived at their decision is that the incorporation of the company proposed to be created by the Bill would not be in the public interest"—

Boil it down to extract the essence of absurdity.

That it has not been proven that the bill is in the public interest, and that their reason for thinking it was not proven, is because it would not be in the public interest.

Is it any wonder so many suggest Senate Reform? Abolition of the Senate has been advocated but it would almost seem that it would be an act of kindness to reform it first. If this were a case of reporting a conversation instead of being a matter of record, it would be said that the statements had been misunderstood, but the wording has been exactly quoted from the minutes as published by the King's Printer.

What is obvious from this recital of our experiences at Ottawa, is that from start to finish, there was not the slightest inclination to give us a square deal, that there was a pre-disposition to refuse our application, that the antipathy to-

ward the bringing in of American capital was not prompted by any fear that Canada would suffer, that the opposition encountered by us was inspired by those who feared a powerful monopoly would be broken, that the Minister of Finance played a part which reflected no credit upon his position, that our case was finally thrown out of Court by a Committee on which banking interests were well represented, that this Committee demonstrated in their discussion, notwithstanding the presence of bank directors, that their knowledge of banking and financial conditions did not qualify them to pass judgment on the subject involved in the application, and that it was presumption for them to conclude after a secret conference, that the formation of the proposed bank would not be in the public interest. This seems to be a favourite excuse for doing or not doing certain things,—"the public interest." Was it the public who opposed our bill? Was it the public who sent a certain lawyer to Parliament Hill in connection with this bill? Possibly those who did the underground work may have been equally solicitous regarding the welfare of the dear public. It is high time that the public should be heard from on the question as to whether or not they wish these public benefactors to con-

tinue the policy of aiding and abetting the most gigantic trust in Canada. Does the public wish the banks to continue the same policy for the next sixteen years as they have in the past sixteen? If so, they may surely expect that a situation of grave danger will develop and the banks will not be able to cope with the prosperity that should come to us. The banks of course will make huge profits and will be satisfied. When satisfied, it matters not whether the additional prosperity can be handled or not. The excess note privilege will be more and more used and the temptation exists to use it to the point of danger. Let Canada open the door wide to banking institutions, remove the restrictions which tend to monopoly and this country will be developed more rapidly. Is it not usually the case that we are hampered for want of capital? Why then do we permit our banks to have all of the business and still permit them to overtrade?

NOTE.—Senator Foster is a Director of the Canadian Bank of Commerce.

Senator Thorne is a Director of the Royal Bank of Canada.

Senator Curry is a Director of the Bank of Nova Scotia.

Senator Beique is a Director of the Banque d'Hochelaga.

The first three Senators named were present.

CHAPTER XIII.

THE PLAN OF A PEOPLES' BANK.

WE HAVE seen that the natural trend of the present banking system is to centralize the banking resources and naturally also centralization brings these resources under the control of a comparatively small number of men. We have seen that the Maritime Provinces have lagged behind in the matter of business progress and development; how they have lost their splendid financial institutions. This is not the only way in which these Provinces have lost, but other losses are directly traceable to the loss of control of finances. The formation of a bank has been described, and in a general way the fundamental principles governing the disposition of the bank's resources have been explained, not in detail for that is not the object of this book. It is now in order to describe a plan, which the promotors of the proposed Commonwealth Bank had in mind, for it was by no means their intention to follow in the footsteps of the other banks. The fact that we had such a plan, and that in our efforts to secure directors, we asked their support to the

proposal, no doubt had something to do with the antagonism aroused against us, for we know that before the bill was sent to Ottawa, at least, one of the banks knew in detail the nature of our plans.

Briefly first, we proposed, that after two million dollars had been subscribed by United States interests, we would have the balance of our capital apportioned pro rata to population, to the various Provinces of the Dominion. The Directors were pledged to pass by-laws that each Province would have the use of the capital subscribed by the people of that Province, the use of a corresponding amount of the note circulation, and sixty per cent. say, of the deposits. Branches would be opened as soon as circumstances would warrant at Halifax, St. John, Charlottetown, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver. In each of these cities there would be one Director, and an advisory committee of four. They might each have to be styled as Directors but there would be one in active touch with the bank's affairs to advise with the local executives. The Manager in each of the cities named would in course of time become Assistant General Manager and branches would radiate from these centres. The General Manager's office would

be located at Toronto, but his duties would be largely administrative and corrective, that is to say, his loaning powers would not be nearly so broad as in the existing banks. It is almost unnecessary to point out that this would be a protective feature, as there is a serious element of danger now in the fact that we actually have one man control,—any outward evidence to the contrary notwithstanding. At the Head Office there would be, in addition to the Ontario Director and committee, a sufficient number of Directors, say five, to form the necessary quorum for the transaction of such matters as must be passed by the Board.

Assuming the bank to be established on these lines, the loaning business would be regulated in the following manner: Branch Managers would have certain discretionary powers as might from time to time be fixed by the Board. We shall assume for instance that a Manager has authority to make advances up to $2,000 with, of course, the usual routine reports to Head Office, the nature and operation of which it is not necessary to explain. Any amount in excess of $2,000 must be referred to the Assistant General Manager, who may have authority up to say $7,500, the proposed loan being recommended by the Manager of the

branch. When a loan is in excess of $7,500 and under $15,000 the Assistant General Manager must confer with the Director, but if not fully recommended by Manager and Assistant General Manager the loan could not be passed. Loans in excess of $15,000 and not over $50,000 would have to receive the approval of at least, three of the local board. Loans greater than $50,000 after being recommended by Manager, Assistant General Manager and local Board, would be referred to the General Office before being finally passed, in order that the proposals might be examined by those in closer touch with business conditions all over the country and to guard the bank against loss through local sentiment or over optimism. The figures indicating discretionary limits are, of course, hypothetical as these may be changed at will by the Board of Directors to suit varying conditions of place, and responsibility.

This scheme provides for the use of 60% of the deposits of the Province in the Province, as commercial loans, not inclusive of call loans. There would still be available a proportion of the remaining monies for investment in Provincial Government and Municipal securities. It would be the policy in so far as possible, to make these

investments in the province where the money originated. It must not be assumed that the policy would result in ill advised loans or the tieing up of funds, as the General Manager and Chief Executive would always have the right to veto any proposal, to order the elimination of certain accounts and if at any particular time in any province, the local executives found a falling off in the demand for money for sound banking propositions, the General Office could direct the investment of the surplus funds in such quarters as would render it immediately realizable upon demand of the provincial executives.

The expense of operation of an institution such as I have outlined will not be any greater than the executive expense of the existing institutions, and there is absolutely no question whatever regarding the feasability of the system. Less intricate machinery would be required at the Head Office as there would be a distribution of detail to the various provincial Head Offices. The actual result would be increased watchfulness and efficiency, as well as increased convenience to the customers of the bank. A customer of a bank in Halifax requiring a loan of $10,000 now has to wait until the Manager writes to Montreal or Toronto.

If there is something in the correspondence not clearly understood another exchange of letters must take place before the customer knows the result of his application. By the new plan each Province would to all intents and purposes have its own bank.

While it could hardly be regulated by by-law the same policy regarding provincial distribution of funds would be further extended to towns when possible, that is to say, if the town of Windsor furnished certain deposits it would be the aim not to deny Windsor the development which really belonged to it by virtue of its own money, but to satisfy all legitimate demands within the limits of its resources. This would be subject to many exceptions, so many and so involved that no definite undertaking could be given but no such difficulty would be encountered in division by provinces.

The following recommendations were made to the provisional directors of the Commonwealth Bank.

Each month the bank would publish a statement of the assets and liabilities of each provincial division, giving the people accurate information of the progress being made by the bank.

No company, firm or individual would be

advanced more than one tenth of the bank's capital and rest.

The Bank should not have invested in Bank Premises any sum greater than the equivalent of 25% of its paid up capital plus 10% of each year's gross profits, and the book value of bank premises never to be written down below 50% of the actual value.

Rates of interest on deposits either current or savings, would be fixed from time to time rather than kept at arbitrary figures, year in and year out. The laws of supply and demand would be permitted to operate and prices for the hire of money would be increased during a scarcity of money and reduced when it tended to become idle. Savings customers would therefore, have received more than three per cent. during the past few years when banks could have well afforded to increase the rate. This, of course, contains an admission that the rate might fall below 3% but considering the fact that the rate has been 3% for more than 20 years, it is not likely that the present rate would be lowered.

There is no sound argument to support a perpetual 3% rate. When the banks find an increasing demand for money they cannot supply, it is only reasonable that they should offer a higher return for it and encourage the people

to increase their savings while these higher rates prevail. When the cycle again revolves and they do not require funds so urgently, they may offer less for money, or in other words reduce the rate.

With reference to the note circulation, there should be a word of explanation as some may wonder how the circulation of each province could be followed. This may be very easily done by a different series for each province, having the name of the Province stamped across the end of the note. The note circulation if not required in one province at certain periods could be availed of in other provinces, and adjusted when found necessary. This is purely a matter of administration and not a question of practicability.

It might be well that I should state in concluding this brief description of my plan, that I am by no means alone in advocating these reforms. This has been thoroughly discussed not only with several American Bankers, but a number of well known Canadian Bankers as well, have very emphatically expressed their approval. It is not only feasible, practical, and sound, but it is desirable and in the best interests of the country at large.

CHAPTER XIV.

JOHN JACOB ARNOLD.

IN JUSTICE to those who were associated with the promotion of the Commonwealth Bank, and in justice to Mr. Arnold, it is my duty to make known to the Canadian public, Mr. Arnold's record in the United States, as reported to me and I may say, that private investigations made at the time indicated that the connection was a desirable one in every respect. Exception was taken by the Government, to the fact that he was associated with a stock selling house, against which there broke a storm of criticism about the time Mr. Arnold joined it, but his activities with that organization were said to be in the interest of a banking institution in the United States, for which the stock selling house was acting as fiscal agents. The telegrams received by me at Ottawa would confirm this view. For some months prior to Mr. Arnold's introduction to the writer, the firm with which Mr. Arnold was connected had been in negotiation with me to take charge of a Canadian business or to assume the management of two financial institutions in Boston, which had met with severe

losses. In fact, these negotiations were started prior to Mr. Arnold's joining the organization. Several proposals were made me regarding their Canadian business based on projects, which I did not consider sound. In the course of several meetings with Mr. Arnold, he became interested in proposals to form a new Canadian Bank, but it should be emphatically stated that these proposals did not originate with Mr. Arnold, neither did he take an active part in the promotion in Canada, but he undertook to supply a substantial amount of American capital. Had the bank received its charter, it is possible that he would have accepted an executive appointment in charge of foreign business, as it was in this particular field that Mr. Arnold attained great distinction. He was a Canadian by birth and it is not improbable that he viewed with favour the possibility of returning to his native land. It might be mentioned in passing that Mr. Arnold had severed his connection with the stock selling house before the bill was introduced at Ottawa. It cannot be said however, that the stories told of him were made out of whole cloth, as he was associated with a house which at the time was being severely criticized, and the charge of pro-German activities was, we have since been told, founded on certain

public utterances, made prior to the entry of the United States in the war, which utterances were decidedly American, opposed to unlimited monarchy, militarism and autocracy, expressing pride in his Canadian birth, and in British institutions, but objecting to England's interference with neutral trade. Many of his views on various subjects as publicly expressed have also been ultra idealistic, and idealism, practical or impractical, expedient or otherwise invariably meets with bitter opposition. I believe the charge of his pro-Germanism to be poorly founded, that there is nor was not any foundation, in fact, for such a statement, but whether there was or whether there was not is neither here nor there in so far as his association with the Commonwealth Bank and the application to Parliament was concerned. He was but one of the provisional Directors, and as such he represented no particular group or interests in the United States. He was cognizant of our plans to dispose of the major portion of the stock in Canada and there was no question of American domination or control. We were totally unaware of there being even any basis for propaganda of the sort and an application for a charter, which complied with the law should not have been refused the other four provisional

directors, because of malicious gossip regarding one. When those who were to become provisional directors invited Mr. Arnold to become one of their number, it was felt that a connection had been made, which would go far to inspire confidence and there was no suspicion that any exception could be taken to the introduction of American capital. That his record had been one of achievement, and his ability recognized by his Government, is evidenced by the following sketch of his life:

John Jacob Arnold was born on a farm in Wallace Township, Perth County, Ontario. He is an example of a self-made man, his youth being spent in both work and study. His early education was obtained by attending school during the winter months, for like many farm boys, he devoted the spring and summer months to farm work.

When he was 14 years of age, he entered the employ of a hardware firm in Listowel. Later, he attended a business college in Stratford, paying his way by working as a clerk and bookkeeper in local hotels, during the evenings.

The newspaper field called him and he was employed as a reporter on the *Stratford Beacon*. Later, he took up the study of law in the office

of Darling and Mabee, Listowel, working half time and studying half time.

In 1891 he went to Texas because of ill health and during the same year entered the employ of the First National Bank of Chicago, securing a position in the Foreign Exchange Department. He remained with the institution 28 years, always in the Foreign Exchange Department. From a minor position, he was promoted to Head Accountant, Assistant Manager, Manager, and then was elected as Vice-President of the Bank, in full charge of the International business.

After severing his connection with the First National Bank of Chicago, he became associated with the Bank of Italy, San Francisco, California, as Supervisor of the International Business Department and his success has been pronounced.

With the advent of the United States into foreign trade, he has become an international figure in that field, because of his grasp and expert knowledge of international banking. He was practically brought up in foreign exchange and foreign trade, and played a leading part in many of the international trade conferences held in the United States, in recent years. Articles from his pen dealing with foreign trade

matters are always in demand from leading publications the world over, and his addresses on international banking and its development, are widely copied, in this and other countries.

Mr. Arnold is a member of the National Foreign Trade Council, and has been since its organization; he was Vice-President of the Chicago Association of Commerce, and head of its Foreign Trade Division; for a number of years he was Chairman of the Foreign Trade Committee of the Illinois Bankers' Association, and National Councillor for that organization in the Chamber of Commerce, of the United States; he was prominent in the activities of the Chamber of Commerce of the United States during the war, functioning as a member of its Committee on Foreign Relations; he took a prominent part in the Pan-American Financial Conference, the World Cotton Conference and the World Trade Conference, being a member of the permanent Organization Committee of the latter. He has been appointed by the Secretary of the Treasury, a member of the Permanent Group Committee for Salvador, to consider means of carrying out the recommendations of the First and Second Pan-American Financial Conferences.

In August 1914, the Secretary of the Treasury

called a conference of organizations interested in foreign trade for the purpose of securing assistance in solving the international problems which were numerous at that time. Mr. Arnold was sent to Washington as the representative of the Chicago Clearing House Association. At this conference there were 250 delegates, including J. P. Morgan and Frank A. Vanderlip. A permanent committee of twelve was appointed to function in co-operation with the various departments of the Government of the United States, in carrying out the plans of the conference. The late Hon. Seth Low of New York was Chairman of this committee, and Mr. Arnold was one of the twelve members. He was the delegate from the American Bankers' Association to the first United States-Mexican Trade Conference, held in Mexico City in February, 1920. He delivered the principal address on "International Banking" at this conference, which address was given the widest publicity throughout the United States, Canada and Europe.

CHAPTER XV.

"THE PUBLIC INTEREST."

THE Senate of Canada, the Government of Canada concluded that the formation of the proposed Commonwealth Bank would not be in the public interest. Despatches from Ottawa to the press, doubtless inspired despatches, stated that until the Bank Act could be amended in 1923, the Banking and Commerce Committee had adopted the principle of refusing all applications for incorporation where a substantial sum has not been first collected. Let the public beware of the next revision of the Bank Act, as we have been informed by several members that at the next revision it would be made more difficult to found a bank. The amount of money required now, $500,000, will be increased, and there is no doubt that every effort will be made to fix the Act so that there will be little chance for opposition. All this anxiety is, of course, in the public interest. It would seem that there is more concern regarding the dear public when someone threatens monopolistic privilege, than at any other time, for we have no evidence of any aggressive policy to remedy acknowledged

ills. On December 6th, 1920, Sir Vincent Meredith, the President of the Bank of Montreal, in the course of his annual address to shareholders, stated that an international scheme was necessary for the financing of foreign trade owing to the dislocation of foreign exchange. Pending the adoption of such a scheme, Sir Vincent said Canada should act on its own initiative by establishing a corporation to foster foreign trade so as to keep factories busy and give employment to labour. Sooner or later, he declared, such a corporation must be launched, adding, "If foreign trade can be revived, it will solve many of our difficulties."

Note the admissions in these words taken from a press report of Sir Vincent's speech. Canada should act. A corporation should be established to foster foreign trade,—why—so as to keep factories busy and give employment to labour. This is what Sir Vincent expected such an institution could do else his remarks meant nothing, were vain and empty. He becomes more emphatic and says,—"Sooner or later it must be formed." If I might be permitted to take issue with so eminent a banker, I would question the ability of any Canadian corporation to revive or create foreign trade under present exchange conditions. They might take ad-

vantage of any opportunities which offered themselves, but I think that what he had particularly in mind and to which he would not give expression was that the banks were in no position to handle it if it did come, since his admission is practically that a new corporation is needed for foreign trade, and that we must have it sooner or later. Are our bankers commencing to realize that the much lauded Canadian system has fallen down? If so then it is their own fault as the theoretical system is as efficient as it was twenty years ago when we had money to assist in the harvesting of the United States crops. The failure is due to an evasion of natural laws, to a consuming desire to overtrade, to reach out for more business on a lesser proportion of capital.

The most interesting point of this candid confession of weakness, is that in so far as the public interest goes, no move has been made to cure the trouble. A whole year has gone by and the foreign banking corporation has not been formed,—our factories have not been busy and we have grave unemployment problems. Is it not astonishing that those who are looking after the public interest have not made some attempt to supply that which is needed and which must come sooner or later? Where are

our eighteen bankers and what are they doing in the public interest? Is it not a fact that because of a policy of contraction, deflation so called, we cannot secure enough money to take full advantage of our home trade? Is not money still reported tight? Suppose export trade should suddenly revive, while some loans would quickly be paid off might it not require many millions additional money? The bank will then, we may assume, reluctantly (?) borrow from the Government and it won't be inflation until they think it has gone far enough. This whole question would disappear if the banks were to issue another $100,000,000 capital or had they kept their capital in proper proportion. Any of the banks could have doubled its capital in the past sixteen years.

Banks are quasi-public institutions. They are joint stock companies founded for private gain and accomplishing this end with public money. While operating for private gain, they are performing services for the public and there are eighteen such institutions in Canada. The public must use them, as they constitute a monopoly. These joint stock companies have invested of their own money $129,000,000 and have accumulated from profits $135,000,000. Therefore, they have $264,000,000 of their own

money in the business. This amount would not equal loans outside of Canada, which on June 30, 1921, were $321,000,000. Total assets on the same date were $2,879,000,000. All but $264,-000,000 was the people's money. In other words the public has ten times as much interest in the banking business of our country as the shareholders of the banks and all of the money is being controlled by eighteen groups of men. Over half of it is controlled by four groups. Two thirds is controlled by seven banks. Is it not appalling that over half the money and credit in this country is in the hands of four groups acting by and with the advice of four men; and that if we take in two thirds of the money we expand the circle of control by only three groups? *Seven men actually control over seventy per cent. of the savings of nine million people by the operation of seven machines,* which gather their savings from towns, villages and hamlets, consolidating them in seven depositories and then these seven men have the power to place the huge sum of one billion three hundred and fifty million dollars wherever it suits them, wherever the greatest profit can be made, or profits being equivalent, wherever the group may make the greatest profits. Who would have the temerity to say that these seven

are superhuman, that they are not, as is perfectly natural, swayed by those nearest them, those of the groups of directors and their affiliations? Is it not perfectly reasonable, perfectly natural that directors with large financial interests have a better opportunity of having their wants satisfied than would a concern situated one thousand miles away? If you deny one man control and can find Directors who direct, you merely admit that the General Manager, who is an employee, will acquiesce in the demands of his employers, and granted that one man control exists the status of employer and employee can be maintained only by the latter having a sympathetic interest in the undertakings of the former. Is all this in the public interest? Is it in the public interest that large amounts of the people's savings should be locked up in huge promotions and financial escapades of various kinds such as for instance, the kind that pay dividends out of capital and pay taxes by I.O.U., while small businesses are told they must curtail?

Let it be clearly understood that this does not constitute a charge or even an intimation of malfeasance in office. It is simply the natural outgrowth of the system, and as long as their exists in the human make up, love of power and love of money, individuals and corporations will not

refrain from using that which the evolution of our banking system has placed within their grasp.

There should be no thought of disturbing the existing order of things or removing a machine, which is semi-efficient unless we can substitute something, which will give increased efficiency. It seems quite evident that the Canadian Banking System is in dire need of reform, and it is equally evident that a public institution being operated for private gain is not likely to accomplish any reform of its own volition. The Banks and what we call the big interests go hand in hand and instead of Government regulation of banks, we have a condition of affairs where legislators (I shall not say must,) act in accordance with the wishes of these monopolists. Through what agency then can reform be accomplished? By the incorporation of new Banks, and to do this there must be a nation wide demand for better, not more, banking facilities, more capital and less extravagance in branch extension.

While in the midst of this subject there has come to my desk, a copy of the *Financial Post* of November 25th, and reading as follows:

"Bank Branch Competition Is Being Overdone in Canada."—

"At the annual meeting of the Canadian Bankers' Association, President C. A. Bogert referred to the activity in recent years of the Canadian Banks in extending their branch systems and urged some plan of supervision, curtailment or geographical control. Mr. Bogert was entirely right and it is to be hoped that the new executives of the Association will give the matter serious attention."

"Since the signing of the Armistice the records in the *Financial Post* indicate that 1,742 new bank branches have been opened by the Canadian Banks and that during that period 214 offices have been closed, a net gain of 1,528 branches since 1918. This is obviously over doing it. During the war period few offices were opened but there was little, if any, hardship from the standpoint of service so far as the public was concerned. The activity since has been one of business competition rather than of extending necessary service."

"Canadian Banks now have 4,700 branches in this country and over 4,900 in all. Probably no other country has anything like such facilities in relation to population. The argument that the reduction of the number of banks has had the effect of curtailing competition collapses in the face of these figures. With the curtailment

of trade and commerce many of these branches are now showing deficits. In many districts one or more branches could be closed without reducing service to the public. This is not a matter of combining to reduce public service; it is a matter of organizing to prevent unnecessary losses. Already some of the banks have co-operated intelligently in this direction but the movement should be carried further. It is not fair to investors in bank stocks to give service at a loss and we do not believe that the public is looking for it."

The remarks and views of the President of the Association herein quoted, were not likely given to the press without either the wish or the knowledge that they be published, and it is highly probable that this is preparatory to evidences of closer co-operation on the part of the members of the Association in the closing up of a number of branches. The policy is admittedly a good one but the motive is to be fair to the stockholders. The mania for opening branches has been referred to as a refutation of the argument that the reduction in the number of banking corporations has curtailed competition. It is nothing of the sort. This competition was at its height when nearly every bank in Canada was overloaned and borrowing from the

Government. Why then the competition? The answer is Deposits and more Deposits. Always the branch Manager is exhorted to increase his deposits and decrease his loans. Head Office will look after the loans. We arrive again at the same point, the distribution of Canada's deposits of nearly two billion dollars by eighteen men. There is no reason why the banks cannot agree on branch extension as they can do so on practically everything else.

In the same issue of the *Post* appears also the following, under the caption "Empty charges regarding the Branch System." The remarks quoted were by Mr. A. J. Frame, an American Banker, before the American Bankers' Convention, held in Los Angelos, California. Mr. Frame is opposed to branch bank extension in the United States.

"You are going to open the door to what undoubtedly is a calamity to the nation. It will bring about a condition of affairs similar to what is over in Canada, and you know, without my repeating it, what troubles there are in Canada, and their lack of progress and prosperity, such as enjoyed by the people of the United States."

"In Canada there are 17 central banks and they have over 4,000 branches. Those 17 cen-

tral banks do nothing but simply skim the cream from the whole of Canada, and they have deadened human progress in Canada. In the United States we have got the most wonderful system that is on the face of God's footstool, there is no nation that has made equal progress to ours. It is because the banks that are located are simply individual banks and they are owned in that individual locality and all the profits that are made by those institutions are distributed throughout the locality in which they are situated. The consequence is that all the money that is made in those localities is distributed, and it fructifies and upbuilds those localities, the hamlets and the smaller cities. And when you upbuild the smaller cities and hamlets of the United States you upbuild this nation as a whole. It is simply giving to a certain class of people the same privileges some other people enjoy. Under a State banking system, such as in New York, you might as well say, because those banks in New York have those privileges, that it is nothing but a cancer, which is eating out the life of the State, then we will inoculate the whole system of the United States, which will eventually become a cancer, which will eat up the progress of the whole nation just as it has done in Canada."

The *Post* states that Mr. Frame was evidently misinformed or has wilfully misconceived the Canadian banking situation, and describes Mr. Frame's stand, as preposterous. A Mr. Latta, who is Vice President of a National Bank replied to Mr. Frame in terms which the *Post* evidently regards as effective. He said, "I have just travelled through Canada and if it has been killed by the branch banking system, it is a funny looking corpse." Mr. Frame possibly made use of an unhappy metaphor, which exaggerated the condition he wished to describe, but a denial in the form of a word play on the metaphor could hardly be regarded as effective argument. I am not in entire agreement with Mr. Frame's antagonism toward branch banking systems, nor the adoption en toto of the United States system; but we should have a reform in Canada which will cure the defects spoken of by Mr. Frame, as beyond any doubt our country's growth is retarded by our financial system. The application of free trade or protection policies with which we are now being regaled prior to election have a great deal less to do with national development than have our banking and monetary systems, yet the latter are subjects which are very little discussed.

In concluding this attempt to present my

views to the public on a question, which I believe to be a vital one, and to use the popular refrain, "in the public interest," I wish to summarize the essential points discussed and suggest a course, which may result in a remedy being found for the unhealthy features of our system.

Canada needs twice as much banking capital as she has at the present time. The Banks are overtrading.

Note circulation should not be provided by putting in hock a bank's securities. An increase of capital would obviate resorting to this acrobatic expedient. A continuance of the present policy will, in the end, undermine our theoretically perfect system, as it was twenty years ago, and render necessary the founding of a central bank, an institution capable of abuse and which encourages overtrading.

Opportunity to found new banks should be afforded capital desirous of doing so, the Act as at present constituted furnishing the Treasury Board with every power necessary to safeguard the interests of the people.

A large banking institution should be founded along lines already defined in this book, giving to each section or Provincial division the privilege of controlling its own financial resources, thereby enabling it to work out the maximum

of local prosperity and contributing to the prosperity of the nation as a whole. The ultimate effect would be to modify the concentrating policy of the other banks, and eliminate gradually the oligarchic tendencies of the system.

The existing institutions should be required to publish statements showing assets and liabilities in each Province.

They should also be required to publish statements that are correct in detail and reflecting their true position, which is not the case at the present time.

Expenditures on bank premises should be limited, as it is unthinkable that we should squander millions in bank premises when we have such a vast undeveloped territory rich in natural resources. Better to encourage exploration and development than adorn two or three cities with office buildings to compete with New York and London in beauty and massive architecture.

To prevent one firm or individual from securing possibly forty or fifty per cent. of the banks' capital for a pulp fiasco or to develop some tropical country, there should be legislation limiting the proportion of capital and rest, which could be loaned to any one customer.

There should be no usury laws, neither should

there be any agreement to keep the savings customer from receiving the proper reward, for abstinence,—the market price for the hire to the bank of his money. The encouraging of new banks introducing genuine competition would bring about a disposition on the part of the established banks to be fair to their customers.

The initiative in the matter of effecting an improvement should be taken by the Maritime Provinces from whence sprung so many banks, and an effort should be made to combine with other interests in other sections of the Dominion in an application for a charter for a democratic banking institution. This should be done before there is an opportunity to create any high board fences by the revision of the Bank Act in 1923.

Parliament should be asked to appoint a commission consisting of expert bankers to investigate thoroughly the banking situation in Canada, to study the system and practices of the United States and other countries, to endeavour to determine the needs of Canada, and to report to a Finance Committee of the House in a general way, and to the Minister of Finance regarding any matters, which would not be "in the public interest" to publish.

That commission should investigate the gross profits made by the banks during the past twenty years, the amount written off for bad debts, the amount expended on bank premises, the remuneration of staff and from data obtained might emerge suggestions, which would be a decided economic advantage to the public.

This commission should assume no responsibility for audit or appraisal of a bank's assets, but should be furnished by the bank's auditor, with any information desired.

In short, all banking conditions, requirements, and prospects should be so studied that the Commission could advise the Finance Minister and Parliament on all matters relating to Banking and Finance.

The commission should be permanent and should be quite separate from the Finance Department,—as independent of parliament as the judiciary, but with no direct administrative or regulative authority over the banks, or such powers as have the United States Bank Examiners. Thus would be created a Government Bureau of Experts giving constant attention to banking conditions and always available to any Finance Minister who at present must be advised by the bankers themselves. There is no check upon such advice, nothing to

determine whether proposals are made in self interest or in the interest of the people. This close affiliation or co-operation between Finance Minister and Bankers is not on the face of it a healthy, protective arrangement and it is only reasonable to assume that greater benefits would accrue through the Government being advised, by an independent authority qualified by experience and intimate association to give unbiased opinions, on every phase and detail of the subject.

No one can estimate the possibilities of Canada's future. No one knows what problems may have to be solved. Our financial system is the pivot upon which everything else revolves. It is of much more importance than the questions so contentious in our political life, and which are magnified to the extent of being so momentous as either to build up or ruin our country. Yet no one pays any attention to this important, vitally important subject, except the bankers themselves;—and we wonder why we are not making greater progress. Interference by the legislator with the monetary system of a country has been deprecated but there would be one advantage, in that the subject would become one which would be more generally investigated by those most concerned with its application. It

is high time that the principles of democracy should exert an influence on this the most powerful factor for national development,—the financial resources of Canada's people.

APPENDIX.

We are indebted to Mr. Andrew Jay Frame, of Waukesha, Wisconsin, for a copy of his address delivered before the State Bank Section of The American Bankers' Association at Los Angeles, Cal., October 3rd, 1921.

Mr. Frame is Chairman of the Board of the Waukesha National Bank, Waukesha, Wisconsin, with which institution he has been connected for nearly sixty years.

THE BRANCH BANK MENACE

The serious question before the American people to-day is, shall we cut out the cancerous growth of Branch Banking that is slowly eating out our vitals, or shall we "sleep at the switch" and permit the Monopolists to take away our birthright?

We grieve to disagree with some of our good friends. We further concede there are some natural monopolies, but cannot concede that Branch Banking is one of them, any more than Branch Stores are leeches upon general prosperity.

Let us brief the case:

The National Bank Act under Sec. 5155

reads, "It shall be lawful for any bank or banking association, under *State laws,* and having branches, . . . to become a National Banking Association . . . and to retain and keep in operation its branches, or such one or more of them as it may elect to retain," etc.

Direct Branch Banking was not authorized under that act, but bills are of late years periodically presented to pry open the door to final freedom. See our diagnosis later.

BILLS NOW IN CONGRESS.

Two bills, Senate No. 39 and H. R. 6257, are now before Congress. The essence of the first provides for one branch in any city or county having 25,000 population. The number of branches may increase with the population to the point, "That in no case shall any national banking association have more than twelve branches."

The H. R. bill is somewhat similar, but limits branches "only in states where state banks have this privilege."

It would seem the time has come, when a bill to clarify and repeal these seriously objectionable features should be enacted, therefore may we present the following for general support?

BANKING AND CURRENCY.

A bill to amend Section 5155 of the United States Revised Statutes relating to Branch Banks under the National Bank Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled.

1st. That so much of Section 5155 of the Revised Statutes of the United States which reads, "and to retain and keep in operation its branches, or such one or more of them as it may elect to retain," is hereby repealed.

2nd. That no part of Section 5155, or the act authorizing Consolidation of National Banks as passed Nov. 7th, 1918, or any other statute of the United States, shall be construed as permitting National Banks to have domestic branches within the United States.

3rd. That this bill is *not* intended to repeal any act of Congress authorizing any United States Bank from establishing or maintaining foreign branches.

4th. To enable the few banks having domestic branches to either dispose of or organize them in accordance with law, this Act shall take effect and be in force on July 1st, 1922.

THE PARAMOUNT QUESTION.

IS THE DOOM OF THE INDEPENDENT BANKING SYSTEM OF THE UNITED STATES IMPENDING?

The propagandists of amalgamations and especially of Branch Banking have spread broadcast of late years, their reasons for so doing, doubtless with a view of 50 or 100 Great Central Banks absorbing our 30,000 independent banks, which alone have done more to fructify the wonderful prosperity of this nation than all the "Cream Skimming" monopolistic Branch Banking Systems of the earth have done for other nations.

If "Eternal Vigilance is the price of liberty," so also is Eternal Vigilance the price of maintaining our wonderful prosperity. The paramount question is, will we "Sleep at the switch" or awaken to our peril after monopoly engulfs us? Will our Statesmen heed Lincoln's unselfish logic by conferring "The greatest good to the greatest number" through elimination of the cancerous growth?

Let us reason together a little. If we repeat some of our former reasons, let us remember that "continual dropping wears away the stone." If our reasons seem logical, let the voice of the multitude be heard in the halls of Congress to

repeal the "back door" method of National Banks buying State Banks with branches or State Banks having branches to incorporate under the National Bank Act and to retain them.

We say "back door" method because the law seems clear that, "If two National Banks (neither having branches) are consolidated under the act of November 7th, 1918, the bank *cannot* maintain but *one banking office.*" The United States Supreme Court 1870 quotes, "The provision of the National Bank Act *requiring* the *usual business* of the bank to be transacted at an office or banking house in the place specified in its organization certificate," which decision seems to be later accepted by the Attorney-General of the United States (See 1921 United States Digest of Decisions relating to National Banks, P. 28).

Notwithstanding these restrictions, the 1920 Report of the Comptroller of the Currency, P. 225-6, lists the following, all except six "approved" under Comptroller Williams' administration:

DOMESTIC BRANCHES OF NATIONAL BANKS.
(Oct. 31, 1920.)

Alabama—Albertville National Bank—Branch at Arab.

California—First National Bank, Bakersfield—Branches at Taft, Wasco and Maricopa.

California National Association, San Francisco—Branches at Portland, Oregon; Seattle and Tacoma, Washington.

Louisiana—Calcasieu National Bank, Lake Charles—Branches at DeQuincy, Jennings, Kinder, Lake Arthur, Oakdale, Sulphur, Vinton, Welch.

Michigan—City National Bank, Battle Creek—Branches at Battle Creek and Jackson.

Mississippi—Pascagoula National Bank of Moss Point—Pascagoula Branch.

New York—National Commercial Bank & Trust Co., Albany—Branch at Albany.

New York City—Chatham & Phenix National Bank—12 branches.

Public National Bank—5 branches.

Irving National Bank—8 branches.

Mechanics & Metals National Bank—9 branches.

North Carolina—American Exchange National Bank, Greensboro—Branch at Greensboro.

Oregon—First National Bank, Milton—Branch at Freewater.

Virginia—First National Bank, Abingdon—Branch at Abingdon.

Washington—Union National Bank, Seattle—Branches at Ballard and Georgetown.

How many more have been "approved" since October 30th, 1920, we are not advised. We know that three branches of the National City Bank of New York were opened in August, 1921.

In view of these facts, coupled with the further fact that some states permit limited branch banking but most states do not, there are some 800 branches of state banks now doing business here. They are increasing. The Corn Exchange Bank of New York has nearly doubled its number in late years and now has sixty to seventy branches. The Bank of Italy in San Francisco has now upwards of forty branches in thirty or more towns in California.

Notwithstanding the great American Bankers' Association at Kansas City in 1916 condemned "branch banking in any form" with but two dissenting voices, yet bills have been annually presented in Congress to permit branches under the National Bank Act, and under various limitations in cities, to practically unlimited authority everywhere.

Although the American Bankers' Association legislative committee filed objections to these bills, yet the evidences seem conclusive to those having inside information that the "steam roller" was and is operating quietly to accomplish its ends.

The voice of the vigilants in many states has been potent in sidetracking these bills.

Some good men seem not to fear the Octopus. Let us see. In 1920 a bill to permit Branch Banking in cities, quietly passed the United States Senate and the House Committee on Banking and Currency approved its passage, but through the vigilance of objectors, was recalled and defeated at a later committee session.

Again in 1920, when the 120 suburban banks outside the loop in Chicago voiced by resolution their opposition to this bill, an answer came back from a high official in Congress, saying in part, "No amount of bunk about the monopolistic system of Canada, or in the great centers, will long prevent the passage of such a bill as we propose."

Again, two bills are now in Congress, S-39 and HR-6257, embodying certain limitations, doubtless as *entering wedges* to later open the door wide to "Canadianize" and monopolize our wonderful banking systems.

Some three months previous to the 1920 and 1921 American Bankers' Association Convention dates, I respectfully asked for twenty to thirty minutes' time of the Convention to, I trust, enlighen the whole body as to the menace confronting them, but received the reply that the "program was full."

My only apology for this diagnosis of the causes for anxiety is that numerous letters from bankers, publicists, etc., mostly confidential, from various states, including members of the Executive Council of the American Bankers' Association, who largely are with us, scenting trouble from evidences seen by them, urged a widespread answer to the propaganda broadcasted over the land for several years in favor of Branch Banking. I here leave the reader to draw his own conclusions.

To our mind, the vital question is, are you bankers and citizens generally ready to surrender—to monopoly?

After nearly sixty strenuous years in upbuilding a good bank, we feel we cannot consistently be accessory to our own hanging, and therefore will sustain the repeal bill herewith. Can we afford to "sleep at the switches"?

SOME ARGUMENTS FOR AND AGAINST BRANCH BANKING.

The reasons for these bills seem to be summed up briefly as follows:

Sir Edward H. Holden, late Chairman of the Board of Directors of the Amalgamated London Joint City and Midland Bank, which had 1300 branches and $1,600,000,000 deposits in 1919, pleaded:

1. "These Banking Amalgamations have prevented panics and have put credit under trade and the Empire.

2. "Large and powerful banks are indispensable to raise £300,000,000 sterling to restore the industries after the war," etc.

Permit me to say, the net profits in 1918 were 54% on the capital or say 27% on capital and surplus, therefore is Branch Banking philanthropic or what? The average profits of all national banks since 1863 approximated 8 or 9% per annum. The 1300 branches submit for head office conclusions, all loans over $500 before action thereon.

Some thirty years ago over 86% of Great Britain's banking power was subject to say eighty central banks, which now through amalgamations is reduced to less than half that number.

Less than ten great banks practically dominate the whole banking power of France and Germany.

In Canada some seventeen central banks (reduced from more than thirty some years ago) now skim the cream from over 4000 branches, leaving only the skim milk for the rural and suburban populations. Branches have no local stockholders, no presidents, or cashiers. They practically pay no taxes and have figureheads for managers, subject to alien officers' orders. The most serious objection is practically *no profits are distributed locally where they are made,* thus impoverishing the nation at large for the sole benefit of monopolizers in the great centers.

Statistics clearly show that failures of banks and losses to depositors in Canada, compared with our National Banking System, exceed ours several times over. These facts are confirmed by at least one ex-manager of a big central bank in Canada and by other authorities I am not at liberty to quote. Her banking power is less than little Massachusetts alone. She is asleep compared to our progress.

As to monopolization putting "credit under trade and the Empire." I respectfully quote briefly from a long article some years ago in the Toronto *Star*:

"CANADIAN BRANCH BANKING SYSTEM."

"Monster banking monopoly a leech at Canada's throat, killing local industry, depopulating rural districts. Centralization of almost entire financial power in the hands of a few capitalists has resulted from our much vaunted banking system. Almost total extermination of local banks. Planting of a 'branch' to suck our local earnings," etc.

"To this accursed system of concentration of credit, the Dominion of Canada stands indebted for a contracted population of 7,000,000 in place of 25,000,000 rightfully due it under decentralized systems of banks, designed to sustain, to breathe the breath of economic life throughout the remotest as well as the most insulated of its parts," etc.

But, how about "preventing panics and raising £300,000,000, to restore industry, etc., in Great Britain"?

After a fairly careful survey of The History of Banking in all nations, "Sumner's History of American Currency" and other eminent authorities, may we brief a few

ASTONISHING FACTS

Without going back to the destructive panics in Great Britain under its Branch

Banking System from 1836 to 1839—1847 and 1857, where according to Henry Dunning MacLeod, "private banks stopped discounting altogether. When universal ruin was at last impending," etc., permit me to quote by way of comparison in later years: In 1866, when Overend Gurney & Company failed for £10,000,000 the bank failures in Great Britain aggregated the stupendous sum of £50,000,000.

In 1878 three banks in Scotland with some 200 branches failed for £20,000,000 with a deficit in assets about equal *to the total losses to all the depositors of all the National Banks of the United States since 1863.* Our *banking power averaged 100 times* these three banks.

In1890 the Barings failed for £21,000,000, but was liquidated by the London banks for fear of a general upheaval.

Thus in 1866, 1878 and 1890 liabilities totalled £91,000,000. According to the Report of the Comptroller of the Currency for 1901, the total liabilities,

1863 to 1901 of failed National Banks was	£37,000,000
1863 to 1898 of all other banks in the United States.....	44,000,000
Total	£81,000,000

This is £10,000,000 or say $50,000,000 short of British failures in the panics of 1866-1878 and 1890 alone, not counting intermediate failures for forty years.

London's last bank failure with branches occurred in December, 1920, with estimated losses of $14,000,000.

The American Encyclopedia for 1893 says of Australia: "Out of twenty-eight banks with 1,700 branches, thirteen of them with 800 or 900 branches failed in six months for £90,000,000." Her banking power approximated one-sixth of ours."

As space forbids, we forbear further quotations, except to say as the independent banking system of the United States has sustained her wonderful development; has floated in the briefest time the most colossal loan campaign ever known; has upheld the credit of the great nations of Europe in the world struggle to the extent of ten billions of dollars, to which we can add five billions on private account; our pre-war debts of say five billions are also paid and to-day we are a creditor nation for some fifteen billions of dollars, therefore may we not fairly assume that it is not necessary to monopolize, to "prevent panics and failures and put credit under trade and the Empire."

Evidently, an occasional twig cut from an independent system, but strengthens that system, whereas under Branch Banking, when the tree and all its branches fall, then a great public calamity follows.

HONEYED REASONS

The honeyed reasons for these bills in the United States are that New York and some other states permit branches largely limited to the cities, but these branches are increasing. Such a cancerous growth is sure to eat out the vitals of the independent banks by slow degrees. Chafing under restrictions, the advocates of monopoly are quietly working to open the door wide. If it is a slow poison that is eating out the life of the independent banking system in a few states, is that a sound reason for grafting the cancer upon the great National Banking System?

If the system is good, why do most of the states prohibit Branch Banking *in toto*.

Wisconsin prohibited it some eighteen years ago, leaving ten branches then in existence and now she is quoted as permitting it.

Illinois, in passing a good law a few years ago, to cut out her mushroom banks, incorporated a

provision against branch banking under her state laws.

Indiana, at its last session, passed a law making it a misdemeanor and subject to penalties.

New Jersey passed a law some years ago permitting branch banking. At once the big fish began to eat up the little ones. Bankers became aroused and a repeal bill was passed over the veto of the Governor. At the late session of the Legislature an effort was again made to pass another bill permitting Branch Banking, but it was signally defeated.

These facts should inspire the states permitting Branch Banking in any form to expunge the inequitable special legislation from their statutes.

Let us also repeal the "back door" methods, lately resorted to, to monopolize our beneficent National Banking System and thus preserve their fructifying influences for the promotion of "the greatest good to the greatest number."

May the banking journals of the country, whose existence are also imperilled (only seven banking journals in Canada), continue to pursue their usefulness.

General Branch Banking would eliminate our State Bank Comptroller offices, our State Bank-

ers' Associations, and also the Investment Bankers' business.

It would practically eliminate our millions of stockholders in the independent banks of the country.

But these are minor matters compared to the wonderful uplift of the nation at large through 30,000 independent banks whose fructifying influences have breathed the breath of economic life throughout the rural communities, the hamlets and cities of our nation. If we upbuild the farms and hamlets, prosperity of the great cities and nation at large is sure to follow. Skim the cream from the farms and the hamlets and the palsying effects are inevitable.

Finally to illustrate: Waukesha has 12,500 population and three independent banks. Some 2,500 people are employed in manufacturing industries, largely upbuilt through the efforts of bank officials. Waukesha County blossoms as the greatest purebred cattle country of America, largely encouraged by the officials of twenty banks in the county. Some $50,000 of profits at 6% on capitals employed, and say $25,000 in taxes would be lost to our city under the Canadian Cream Skimming process. Seventy-five thousand dollars per year saved to Waukesha, makes $1,500,000 in twenty years.

In 1916 I addressed the State Bankers Association of Colorado at Denver, and made a like comparison, which then would skim from Denver $1,250,000 per annum and $25,000,000 in twenty years.

Apply these illustrations to the hamlets and small cities of the nation; apply them to Atlanta, New Orleans, Los Angeles, Seattle, St. Paul, Minneapolis, Milwaukee, Detroit, Buffalo and other cities of that character, and may we not well ponder, whether it is not better to retain our proved wonderful democratic system, which broadens our whole nation, or to permit 50 to 100 great central banks to skim the cream from the country, thus paralyzing general prosperity.

At the age of 77, this plea may be my valedictory in behalf of sound currency, sound banking and "The greatest good to the greatest number." I am profoundly impressed that our statesmen will not err, if the repeal bill we propose is placed upon our Statute Books.

May "life, liberty and the pursuit of happiness" under our Constitution ever be the Beacon Light to our greatest progress.

ANDREW JAY FRAME.
Ex-Chairman Country Bankers' League.

ADDENDA.

On October 3rd, 1921, the foregoing was delivered by me before the State Bank Section (comprising two-thirds of the A. B. A. members), and with *but three* dissenting voices was *unanimously endorsed.* One dissenter was an official of a bank having many branches.

The Executive Council of the A. B. A. at an early session passively approved of limited Branch Banking, then on Wednesday evening, the 5th, unanimously reversed its previous action.

On Friday, October 7th, at the National Bank Section session, after the addresses, an announcement was made that this *closed the addresses and if anyone desired to retire they might do so now, as there was only some routine matters to go over. The bulk of those present retired.*

The resolutions committee of this section reported a Branch Bank Bill limited to cities, etc., and with *but twenty-seven people by actual count in the room,* pushed the resolution through.

Query: Are the destinies of this nation to be solved by such apparently disreputable methods? Is supreme selfishness to stifle our wonderful progress?

As the small minority is working tooth and nail to absorb the overwhelming majority of banks whose officials are against "Branch Banking in any form"; shall we sleep at the switch or plead with our legislators to "cut out the cancer"?

Finally. The question is often raised, how long can we support the American Bankers' Association if the "Steam Roller" seeks to absorb us?

A. J. F.

NOTE

On Page 174 reference is made to an item in the *Financial Post* reporting the meeting mentioned in the foregoing. Being suspicious that the "funny looking corpse" squib had not non-suited Mr. Frame, I wrote him for a report of the meeting. It is evident from this recital of what occurred that the "retort courteous" so conspicuously featured in the report for Canadian consumption, had little if any influence in the Convention's discussion. Note that there were only three branch bank advocates in the State Bank section and there were only twenty-seven present in Committee of the National Bank section when a resolution was pushed through advocating branches in cities.

W. L. B.

Delays experienced in the printing of this work, the writing of which was completed in December 1921, enable us to add a more recent article of Mr. Frame's which was published in the August issue of the *Mid-Continental Banker,* St. Louis, Mo.

NINETY PER CENT. OF BANKS OPPOSED TO BRANCHES;

RESULTS IN OTHER NATIONS A WARNING TO U. S.

While most state laws absolutely prohibit branch banking and a few permit it in cities only, two or three states have opened the door wide. California has 280 branches out of 1,000 in the state. While the national bank act apparently prohibits branch banking and for 60 years, though bills to amend the law permitting it have repeatedly been presented in Congress, according to the chairman of the House of Representatives banking committee "It has not been possible, however, up to the present time to get a bill in any form whatsoever through Congress that would authorize national banks to have branches."

In view of these facts, is it not amazing that any comptroller of the currency should approve of branches? Is it not amazing that any banker should defy this record and proceed to drive the wedge further toward monopolizing our independent banking systems, which have done more to upbuild this nation than all the cream skimming branch bank systems have done for other nations? Because a few states permit the cancerous growth to eat out the vitals of some local-

ities, is that a sound reason for engrafting the cancer upon the nation at large?

Do these banks, claiming the congressionally denied right, need to absorb other banks to keep them from starvation? Can they not stand on their own legs, in fair competition with the independent banks of the nation? Is supreme selfishness to override justice toward all?

What are the results in other nations? Great Britain some 30 years ago had, say 80 central banks, which with thousands of branches, did 86 per cent. of her banking. To-day five banks through consolidations, etc., practically dominate her banking power. In France and Germany a like result attains.

Canada is dead as compared to our progress. Against over 30 central banks 30 years ago, Canada has now 17 central banks in Montreal and Toronto and 4,650 branches throughout the Dominion. These central banks skim the cream from the nation at large, and leave the skim milk for the masses who produced it. These results are in a territory as large as our own, three millions of square miles (barring Alaska), and yet her total banking power approximates that of little Massachusetts alone with but 8,900 square miles of territory.

WHAT THEY THINK IN CANADA.

The Toronto *Star* calls the system "monster banking monopoly, a leech at Canada's throat, killing local industry, depopulating rural districts, etc."

A chairman of a Royal Commission appointed in Canada to report on this subject writes me, "The great objection to the Canadian banking system is that it concentrates the banking profits and influence in two large cities, Montreal and Toronto. This applies also to all business, manufacturing, trading, insurance and mortgage loans." This indictment I have lately had confirmed by bankers of long experience in Canada. What an enticing picture for free America!

The honeyed reasons of a few choice spirits who desire a grant of this special privilege, are so at variance with common justice and so absurd upon their face, that all vestige of any possible construction of law in favor of branch banking should be wiped off from the statute books of our nation instanter.

"THE STEAM ROLLER IN ACTION."

Permit me to warn the independent bankers of this nation who hold the power that, although more than 90 per cent. of the bankers of the

United States are against branch banking in any form, yet the American Bankers' Association "steam roller" is in the saddle and you must awake to your peril, or in the language of an editor in chief of a great enconomic journal, "meekly submit your necks to the yoke."

I am fully convinced that if the independent bankers do not get together to formulate some effective plan to eradicate the cancer from the nation the paralyzing poison will do its deadly work, and our wonderful progress will be palsied. The proof lies in a comparison of Canada, with her monopolistic banking system which has practically paralyzed her progress, as against our systems, which have breathed the breath of economic progress into every fibre of our being.

OUR PRESENT SYSTEM IN THE WAR.

That big bank combinations are necessary to "put credit and trade under the empire," as claimed by the chairman of "The London Joint City and Midland Bank," with 1,300 branches, is proved absurd, for, while during the late world war the independent banking systems of the United States have sustained her wonderful development; have floated in the briefest time the most colossal loans ever known; have upheld the credit of the monopolized banking nations

of Europe to the extent of ten billions of dollars; have turned the United States in eight years from a debtor nation for five billions of dollars to a creditor nation for fifteen billions.

We have also retained the world's gold standard, while the nations of the old world are crying for relief from great floods of irredeemable I. O. Us. Starvation and want in the midst of this flood stalks forth even where nature's gifts should show an abundance of milk and honey.

Contrast these conditions with those of the United States, where labor is better paid, better housed, better clothed and fed than all history records; where prosperity generally abounds, and we may well exclaim, "Thank God we live under the Stars and Stripes!" Our only dark clouds emanate from the preacher of the gospel of discontent and the cream skimmers in banking. The object lessons of monopoly, arrogance and oppression of the past decade in the old world should warn us that American freedom should not be superseded by any oligarchy. Branch banking is a calamity to any nation.

INDEX

Page

Act, See Bank Act 40

Arnold, John Jacob—His connection with Commonwealth Bank 119–133–137

life of 158, 164

Bank Act—imperfections of 40–46

Bank—a clearing house for credits 23

commencing business 50

definition of 50

founding a new 48–53

new plan to keep resources at point of origin 150–157

reserves 52

Bank Branches—1904 and 1921
analysis showing number of towns with one branch, two, three, etc. . . . 89–90

increase of, has decreased proportion of capital to turnover. 85

Banking Fundamental—principles of . . 21–34

" Monopoly . . . . . .
" Resources—how controlled . . 169

" System—Commission to assist Gov't., in regulation of 179–180

Banks—comparison assets and liabilities of 1904–1920 63–82

Page

evidences of unfair co-operation to disadvantage of customers 110

fate of Maritime Province . . . 85–86

in a crisis 107

liquidating businesses unnecessarily . . 111

precipitating a crisis 73–74

Capital—insufficient amount of, for Canada's needs 70–73

notes in excess of 72

percentage of to growth of business being reduced 72

Circulation—See Note Circulation.

Commonwealth Bank—provisional directors of 122

promised by Minister 15

Senate Committee's Report on . . . 146

Crisis—Banks in a 107

Danger—falling down of system . . . 72

Directors—of Banks on Senate Committee . 149

of Bank of Nova Scotia, where domiciled 144

of Canadian Bank of Commerce, where domiciled 142

Provisional of Commonwealth . . . 122

Drayton, Sir Henry—Minister of Finance . 124–129

Eckardt, H. M. P. on note circulation . . 68

Excess Circulation—See Note Circulation.

Federal Gold Reserve 53, 57

Page

Frame, A. J., Waukesha, Wis., before American Bankers' Association. (See Appendix) . 174

Gold Standard 19–31

Government Issues—not sound 32

Great West Bank—one promoter in jail . 16

charter extended 16

Hoarding Panic 1893 36

Interest Rates—R. M. Pringle on . . . 80

Interest Rates—a manufacturer's viewpoint . 95–96

on savings fixed by combination . . 93

Maritime Provinces—banks formerly owned in 85, 86

branches in 84–91

effect of amalgamations . . 78, 85–91–92, 150

Medium of Exchange—(See Money)

Meredith, Sir Vincent, remarks at annual meeting 1920 166

Money—actual gold not necessary to redeem . 30

a medium of exchange 19

amount of paper banker should issue . 25

beginning of paper 24

definition 19

evolution of 19–23

false notions regarding 32

fluctuations of 31

gold standard for 31

Page

inflation of 37

legislative interference with . . . 32

origin of 19

Monopoly—R. M. Pringle on 80

evidences of . . . . . .

Note Circulation—effect of excess . . . 38

excess of 66–74

former restrictions regarding . . . 66

H. M. P. Eckhardt's opinion of excess . 68–70

how excess now obtained 53

how excess now secured 54

using other banks' notes as . . . 67

Note Issue—banker should have monopoly of 24

of banks made legal tender . . . 33

should not exceed capital 25

sufficient for trade an essential . . 26

(See also note circulation)

Panic—Hoarding Panic 1893 36

Paper Money—See Money.

Pringle, R. M.—on Money Trust . . . 80

Propaganda 98

Prosperity—Canada's war, and over extension of credit 27–29

Provincial or sectional control of banking resources 150–157

Public Interest—in the 165–182

	Page
Savings Bank—rate fixed by combine	93
should be a market rate	94–96
Senate—Committee's Report on Commonwealth Bank bill	146
Senate Committee includes several bank directors	149
Senator Foster—Chairman of Committee	140–142
Statements published by some banks false	98–100
Treasury Board—provisions re granting certificate by	128
Waste and Inefficiency	88
Window Dressing	98

Warwick Bro's & Rutter, Limited,
Printers and Bookbinders, Toronto, Canada.

EcF
B1686m
199171
Author Baker, William Long
Title Money monopoly.

University of Toronto
Library

DO NOT
REMOVE
THE
CARD
FROM
THIS
POCKET

Acme Library Card Pocket
Under Pat. "Ref. Index File"
Made by LIBRARY BUREAU